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# West Europe Report

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22 MAY 1986

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POLITICAL

FRANCE

ROCARD DISCUSSES VIEWS, SOCIALISM, PS POLICIES

Rotterdam NRC HANDELSBLAD in Dutch 18 Apr 86 p 7

[Interview with socialist Michel Rocard by Eric Boogerman, at Rocard's headquarters in Paris: "'Frenchmen Do Not Believe in a Cruise Missile Veto'"; date not given]

[Text] Michel Rocard occupies a strange place within the Socialist Party. The party elite distrusts this latecomer. Rocard was not there when Mitterrand established the PSF in 1971. During that period, Rocard was the leader of the leftist-radical Unified Socialist Party (PSU). It was not until 1974 that he, together with several thousand supporters, went over to the PSF.

His position within the party, where he leads the most important minority movement, is controversial. His intellectual capacities are universally recognized, but his feel for political tactics tends to fail him. However, his popularity among voters is outstanding compensation for his mistakes in the tactical realm. Michel Rocard is the incarnation of the ideal that the French have of socialism. Economic efficiency and social compassion are the ingredients of that ideal.

Although he conjures up strong resistance within his party, the possibility that the PSF will end up taking refuge in Rocard as its candidate for the 1988 presidential elections cannot be ruled out. However, President Mitterrand, the champion of "cohabitation," is the most likely candidate for the time being. As early as last summer, Rocard announced his candidacy for the presidency.

The 55-year-old politician received me at his headquarters on Boulevard St. Germain in Paris. There was a feverish atmosphere there, as if the presidential election were just around the corner. Lighting one Gauloise after another, Rocard spoke openly and in detail for an hour and a half about the future of his party, the crisis in social democracy and the position of the Dutch Labor Party on the issues of cruise missiles and nuclear energy.

[Question] You are described alternately as a socialist, a social democrat and a liberal socialist. What in fact are you now?

[Answer] I am a socialist. That definition is sufficient for me. I make it my task to contribute to the evolution of socialist thought in France. This socialism must gain a close connection with reality and be reconciled to a greater extent with current society and with the demands of the world economy.

#### Radical Vision

[Question] Why has the term "social democracy" been a term of abuse for so long among leftists in France?

[Answer] For a long time, French socialism assumed a very radical vision in the economic domain. The general expropriation of the means of production was the ultimate aim of French socialists.

When the communists left the Socialist Internationale in 1920, the part that was left--of which the overwhelming majority called itself social democratic--explicitly renounced the use of violence in taking power. On the other hand, the socialists did not feel that it was then necessary to question their economic views, which were still formulated by Trotsky.

The social democratic parties gradually distanced themselves from these economic views: the first place that this happened was Sweden in 1932. But the situation decreed that the socialist parties in the Latin countries were to hold on to the class struggle. Their economic credo was that the economic and financial power of the bourgeoisie had to be destroyed after an electoral victory. The four socialist parties in the Latin countries (France, Spain, Italy and Portugal) condemned the compromises that the ruling social democratic parties, especially in Sweden and Germany, had reached with capitalism. As a consequence, social democracy did not have a good name in France.

I do not share this negative opinion at all. This bad reputation was made possible by an entirely unrealistic assessment of the bounds of what is possible. What we French socialists can learn from the social democrats in northwestern Europe is the ability to reach compromises with the class enemy and to lead our society without wanting to destroy the financial power of the bourgeoisie.

[Question] According to a recent opinion poll, you are still the most popular politician in France. At the same time, the majority of the country voted for the Right last month. How do you explain this curious phenomenon?

Rocard discusses only the aspect of his popularity, ignoring the recent electoral victory by the Right.

Most French politicians, he says, are interested only in tactics. Politicians use an idiom that the French call "langue de bois" (literally, "wooden tongue"). It is a dialect designed to obscure the truth. But the French are sick and tired of that dialect. They feel that it is merely a matter of tactics, and that the facts are being blurred.

[Rocard] I am popular because I have been able to make it clear to public opinion that a politician can face up to facts, even if these facts are unpleasant. This has been taken ill of me within my own party. Because every time that I say a truth at which the Socialist Party might take offense, I run the risk of having the entire party come down on me.

#### Energetic Policy

[Question] Five years of government responsibility have brought about changes in the Socialist Party. However, the economic realism that has been consistently pursued since 1983 appears to apply primarily to the socialist ex-rulers. The party is still characterized by an opposition mentality. How do you see the evolution of the PSF now that it is back in the opposition after 5 years of ruling?

[Answer] It is true that the PSF had a "culture d'opposition" when it came to power in 1981. I myself have consistently opposed that mentality. Specifically, at the Metz party congress in 1979, I argued that governing will be difficult and that for that reason the voters should not be promised too much.

In the beginning stage of socialist rule, no one listened to my warnings. But after 1983, the socialist government pursued an energetic economic and financial policy. This evolution was incorporated into a document at our party congress in Toulouse last October in which, for the first time in 80 years, socialist aims were adapted to the society in which we live. That document expresses a desire for governmental responsibility.

Moreover, you are correct in your observation about the mentality in the party. Drawing up a document is not enough to effect a definitive turnaround. I am afraid that the PSF will be confronted with internal conflicts in the near future. And yet, I am not pessimistic. The vast majority of the party leaders know that the Left could forget about governing for 30 years if the PSF were to again embrace the old opposition culture.

Public opinion no longer wants to be manipulated by demagogy. This change is of the utmost importance. The French have in the 1980s gained a massive interest in the economy. Demagogy is no longer remunerative.

[Question] And yet the unity of the PSF appears to be threatened by several factors. There are various currents within the party. In addition, the hegemony of the presidential election in your political system threatens to lead to an intensification of the personal rivalries within the PSF.

[Answer] The PSF has managed to preserve its unity rather well thus far. I would prefer to replace your term "currents" with "sensibilities." We have Catholics, Protestants, government workers and representatives of the private sector in our party. This diversity has resulted in the formation of clans. But these differences between the various sensibilities are on the decrease. At the Metz congress in 1979, we had still not succeeded in bridging the differences of opinion. Last fall at the party congress in Toulouse, we were



able to do that. We gave plenty of expression to our differences of opinion without, however, allowing things to come to a crisis.

Rocard admits that the presidential elections could put the PSF under a great deal of pressure. The party will then have to designate a presidential candidate, he says. This could lead to conflicts. However, this does not have to mean that the party will fall apart. No one would want to accept the responsibility for that.

[Rocard] But anything is possible. Our party is only 15 years old, and we cannot be guided by precedents. Your question is all the more valid because dangers can pile up. Difficulties surrounding the nomination of the president could have an undermining effect on the effort to rid the PSF of its opposition mentality. If that were to happen, then we would really have problems.

#### Less Visible

[Question] For some time, the difference between the Left and the Right in France has not been as great as it previously was. There is not only a consensus on foreign policy, but also on the economy ever since the socialists traded in their utopian dreams for reality. What really is the difference between the centrist Right and the centrist Left?

[Answer] It is true that the differences are less visible than they were previously. Up to 1983, the PSF propagated a different, more socialist society. But those plans for reforms were to a considerable extent utopian and illsuory. Since then, the aims of the socialists have been characterized by the pursuit of gradual reform of French society, but with complete regard for national competitiveness and an opening of the economy to the world economy. This development has clearly lessened differences of opinion with the conservatives, but it leaves the contrast between the Left and the Right intact.

However, this contrast has become less one of caricature; the debate is becoming technical in nature. The question of whether weak people in society should be protected, or whether the economically strong ones should be favored, remains an important point of contention.

The same is true of the question of whether the education of a small but highly qualified elite should be continued, or whether the democratization of education should given priority.

[Question] You are going to be meeting leaders of the PVDA [Dutch Labor Party] in Amsterdam. As a socialist, it must please you that this party is scoring well in opinion polls for the coming parliamentary elections. It must be less pleasant to you that the Dutch socialists hold different views on security issues and on East-West relations than does the PSF. What do you think of this tendency towards neutralism or pacifism by the PVDA and various other European socialist parties?

[Answer] I do not want to rebuff my Dutch comrades, but it is clear that I do not share their rejection of the cruise missiles. France, together with Great Britain, is the only European country that has taken the trouble to equip itself with its own nuclear forces. I do understand that it is difficult for smaller countries to follow our example. But this does not mean that these countries should exclude nuclear weapons from their territory. It is a line of reasoning that is at any rate unacceptable for a Frenchman.

#### Understanding

I myself am prepared to become a pacifist as soon as there is available evidence that the USSR's arming to the teeth is under no circumstances intended for use against the West. At that point, I will gladly share the position on security issues taken by certain comrades in the Socialist Internationale.

[Question] You feel that the position of some of those comrades, especially the Dutch ones, is rather groundless.

Rocard nods in agreement. After a slight hesitation, he adds apologetically: But from a historical and sociological point of view, I can certainly show understanding for how the Dutch comrades arrived at their rejection of the cruise missiles.

[Question] The Dutch socialists are also very distrustful of nuclear energy.

[Answer] Coal exploitation in France cost an extraordinary number of lives. Our mines killed, while nuclear energy has never resulted in any deaths in our country. In addition, the atmosphere is polluted much less by nuclear energy than it is by hard coal or oil. The ecological movement in France has never been able to refute these two key arguments. I view myself as a nuclear environmentalist.

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POLITICAL

NORWAY

HAGEN OVERCOMES LEADERSHIP CHALLENGE AT PROGRESSIVES' CONGRESS

Hagen on 'Marketing Party'

Oslo AFTENPOSTEN in Norwegian 4 Apr 86 p 3

[Article: "Carl I. Hagen: 'Much to Learn From Socialist Left and Workers Communist Parties'"]

[Text] The Progress Party has much to learn from the Socialist Left Party and the Workers Communist Party (Moscow Line), party leader Carl I. Hagen believes. It is the marketing of the party where there is something wrong--there has been a lack of success in causing sufficient awareness. He will try this week to sell these and other views of the party's problems and opportunities during the national congress which is to open on Saturday morning in Oslo.

The party leadership will present an annual report to the national congress which, among other things, will describe very troubled finances, misguided efforts prior to the election, serious setbacks in the election results, unrealistic optimism, unfortunate advertising campaigns and un-Norwegian nomination procedures.

[Question] "In light of this, should the entire party not be disbanded?"

[Answer] "No," responded Hagen at the party's press conference yesterday. "We are raising questions about what went wrong and believe that in part, it is our own doing, and in part due to the fault of other parties. Of the errors which we accept as our own, they had, at least to some extent, the backing of the unanimous party leadership."

Tense

In response to a question, Hagen said that as a member of the leadership, he normally followed the opinions of others. "I should have followed my own views to a greater extent," he says in retrospect. He does not ignore the fact that at the national congress there will be increased criticism, among other things, of him as a result of the election. It will be a tense national congress and not nearly as funny as certain newspapers hope it will be, he thought.



[Question] "What is the party's major problem?"

[Answer] "That we are not clever enough to use our position to market our policies. We have demonstrated too little initiative--come forward with too few proposals which could have aroused attention. Our political ideas are on a forward march many places in the world--for example, with regard to government power and control."

[Question] "Are there only eight-ten women among the 92 delegates to the national congress?"

[Answer] "We had wanted a less distorted division--a view shared by the election committee," stated Hagen. The list of the election committee contained the names of three women among the 16 recommended as deputy representatives to the party leadership. Recommended for reelection are Hagen as chairman and Anne Beth Moslet as first vice chair.

According to Hagen, a small minority is expected to support dividing the functions of parliamentary leader and party chairman.

Oil, Dollar

Hagen expressed disappointment over the fact that the party's efforts had not produced greater results in the election and in the opinion polls. During his address, he does not intend to discuss the party's strategy in Parliament, and instead will focus on the current most burning political issues--the fall in the price of oil and the dollar.

[Question] "Will the Progress Party survive to bring down the non-socialist government?"

[Answer] "Yes, I think so."

#### Paper Views Party's Problems

Oslo AFTENPOSTEN in Norwegian 4 Apr 86 p 2

[Editorial: "Political Suicide"]

[Text] The Progress Party is balanced on the verge of being wiped out when it meets this week for its national congress in Oslo. In the election last fall, it received 3.7 percent of the vote, managing--with a cry of distress--to hold on to two parliamentary seats. Carl I Hagen won the next-to-last Oslo mandate, while Bjorn Erling Ytterhorn won the last mandate in Hordaland. The balance of power position in Parliament resulted in an upturn in the opinion polls during the first two months following the election. But the trend which has been developing since October of last year is completely negative.

Hagen's party today has support along the lines of that which the Liberals had prior to that party being voted out of Parliament. The balance of power position has not produced results among the voters. This is despite the fact that the governing parties' confusion has given the Progressives one free point after another. For the moment, we will content ourselves with citing the example of the budget debate. That ended, as is known, with the center parties joining with the Progressives in a compromise that was better than the government's original proposal--with a simultaneous declaration that such a thing would never be allowed to repeat itself.

Seldom have so many done so much for so few, but the return from the beneficiaries has been equally totally negative. This is noteworthy, but the explanation is simple. The Progress Party has not managed to assert itself as a serious political party. It lacks credibility and is more a many-faceted association of a few disenchanted voters than a political party.

According to our understanding, certain of the party's elected representatives believe that the situation can be improved by splitting the top positions. It is not a new notion that when poverty comes in the door, love flies out the window, but it is a major misconception to believe that the Progress Party's problem is Carl I. Hagen. With all due respect, this is to stand the problem on its head. If one does not believe us, one need only ask the many politicians among all other parties who would more than gladly see Hagen removed as party leader. For them, the equally deft as glib political rival is a detriment. To put it bluntly, Hagen /is/ the Progress Party. What the party needs least of all is a situation with two power centers--one tied to a party leader who some believe should evaluate Hagen's activity as parliamentary leader of a delegation of two. The party chairman's opponents prescribe a medicine which clearly and effectively would put an end to what remains of the Progress Party.

Hagen himself says that "nothing will surprise" him. But to put it bluntly, it would be a rare thing if a group which sits in the swing position in the national legislature would seek political death at its own hand. For our part we assume that the Progress Party also understands what is in its own best interest.

#### Polls Indicate Support Dropping

Oslo AFTENPOSTEN in Norwegian 5 Apr 86 p 5

[Article by Lars Hellberg: "Without Hagen, No Party"]

[Text] Nearly everything may happen when the Progress Party gathers this week for its national congress. The one-track protest movement has been replaced by a many-sided, party-like association. "I expect calm among the troops, but nothing would surprise me," states Carl I. Hagen. The party leader acknowledges his loss of esteem, as well as the opposition to him.

Despite Hagen's premonitions, the national congress will not turn into a palace revolution. The chairman has his opponents, but they also know that the Progress Party cannot survive without him. A possible proposal to split the positions of party chairman and parliamentary leader will barely get more than 10 to 15 votes. When it concerns the Progress Party, one should not preclude anything from happening. But it is certain that an "uprising" out in the open would end in a smashing defeat for those who initiate it.

### 'Nasty'

The issue of splitting the top posts was raised by Hagen's fellow representative in Parliament, Bjorn Erling Ytterhorn, both at the district meeting in Hordaland and at the most recent national leadership meeting. But the setback which Ytterhorn suffered hardly tempts repetition. "Things became quite nasty for Ytterhorn at the national leadership meeting," states one of the party's representatives. The reaction was explained to AFTENPOSTEN as being a fear that a division of the top posts "might create two factions" within the party.

### At Least Two Factions

To an outside observer, however, there obviously already are at least two factions within the party. The Progress Party today stands as a government-expenditure party in conflict with its own voters. No one will deny that Hagen had it both ways during the budget negotiations last fall. The three ruling parties paid dearly for their lack of political strategy. But Hagen's new profile also has shown itself to be expensive for the Progressives. According to the political barometer being released today by AFTENPOSTEN, the party would receive 3.1 percent of the votes, or to the decimal point, the same result which put the Liberals out of Parliament. During the last election, Hagen and Ytterhorn held on to their seats with 3.7 percent of the vote. Recently, Hagen's party has not managed to convert its swing position into increased voter support and it is teetering today on the verge of being wiped out. Paradoxically, this strengthens Hagen's position to the extent that he can request calm and solidarity, while at the same time promising greater activity externally.

### Not Unambiguous

Additionally, the delegates can coalesce around a collective denunciation of the Willoch government's proposal for expenditure increases. That is the protest movement all over again. Nonetheless, it would be in error to say that the party's position respecting the government is unambiguous. At Christmas time last year, the picture of the four parliamentary leaders in front of the Christmas wreath marked the fact that the Progress Party was a part of Willoch's parliamentary base. This continues to be the case, even though both the Center Party and the Christian Democrats appear to want to repeat all of the mistakes of last year in connection with the handling of the government's "Easter egg."

With due respect, it would be asking for trouble insofar as attempts are made to limit Hagen's negotiating options. A group within the party wants to topple the coalition government sooner than soon, partly for the reason that it is pursuing socialistic policies. This protest group sees no difference between the current non-socialist government and a socialist government. Others want to retain the Willoch government at any price, while the largest group is prepared in acute situations to bend the archer's bow to the breaking point.

The relationship with the non-governing parties, however, is just one of the nearly unspeakable issues which, in a given situation, could blow the party to pieces. Already during last year's national congress, the "saved" liberals from youth organizations came into open conflict with delegates from the various districts. The party's holy crusaders--and there are some of them--have no sensitivity to the demands for repealing the state church arrangement and the prohibition against illicit distilling, just to cite two examples.

During the week, opposition will be greatest during the local government policy debate. But disagreement also will surface during the "freedom debate"--which is on the agenda. The first speaker, obviously, will be the party's vice chair--and the liberals' ideologic banner carrier--Anne Beth Moslet.

#### Tough Going

Neither she nor group secretary Jens Marcussen--who lurks in the background as a possible candidate for chairman--can dispute Hagen's position, but he no longer can do just as he pleases. With a miserable election result and even worse public opinion polls behind him, Hagen must prepare himself for tough going during the general political debate.

#### Hagen Addresses Congress

Oslo AFTENPOSTEN in Norwegian 7 Apr 86 p 5

[Article by Lars Hellberg: "Complete About Face by Progressives?"]

[Text] The Progress Party this week put the question of active participation in a coalition non-socialist government on the agenda. "It is crystal clear that we must discuss this issue very carefully and in depth," states Carl I. Hagen. He thereby allowed for the possibility of a complete about face, at the same time as opponents within the party were put in the spotlight as a result of raising an irrelevant problem.

For the three ruling parties, there never has been talk of including Hagen's party in the government. From the point of view of the Progressives, there is --as Hagen said--a lot which speaks in favor of, and a lot which speaks against, participation in the government.

## Suprise Attack

During the political debate, he received a surprise attack from his political vice chairman. "Politics is the desire to demand positions of power, whether we like it or not," said Anne Beth Moslet, who recommended that the Progress Party take lessons from the Center Party. She pointed out that the Center Party received 170,000 votes in the election and has four ministers, while her party, with nearly 96,000 votes, has no seat at the king's table.

"In the same fashion as the Progress Party is seeking influence in local politics by demanding chairmanship positions, committee chairmanships, positions on municipal councils, and the like--all according to vote totals--we also must demand positions of power in national politics according to voter support. Unless we stand firm, the Christian Democrats' Kjell Magne Bondevik & Co. will succeed in their maneuvers to freeze us out. This does not serve our voters," stated Moslet.

Only the very few took Moslet's initiative seriously, but Hagen, nonetheless found it appropriate to issue a challenge for an internal debate. "This can give Bondevik and his colleague in the Center Party, Johan J. Jakobsen, chills in their spines, and that can only be for the good," he asserted. It is clear that a demand by the party for participation in a government will mark a total about face, and additionally, will hold the prospects of achieving results.

The national congress otherwise was dominated by an awareness that the party is balanced on the edge of being wiped out. "But we have been judged as having gone to the dogs before. The difference is that in 1977, the awareness of the party's problems did not put a damper on the open wrangling which shoved us out of Parliament"--as a leading representative of the party put it for AFTENPOSTEN.

## Clear Opposition

The delegates played with muted strings, but that did not prevent the personal and political opposition being expressed clearly. The tone throughout was that the Progress Party has become too much of a political party and too little of the old protest movement.

"It is," said Peder Ramsrud from Oppland, "easier to get 20 percent of the voters behind our protests than five percent in favor of our party program."

"There is too much liberalism, free market economy and privatization, too many foreign words, too many day dreams and futuristic views. And too little protest against taxes and spending, too little protest against the bureaucrats doing what they want to ordinary people," said editor Jan Simonsen in the paper FREMSKRITT. He is, by the way, also press secretary for the parliamentary group.

## Young People's Revolt

However, the clearest opposition was expressed in a presentation by the head of the youth organization:



"Why don't we pursue tradition like a freedom party? Why not speak to the voters about the things which concern us and which are in accord with our liberal ideology? Why attempt to be a pensionists' party when we are a party in favor of strong reductions in taxes, expenditures and government interference? It is time to get on the track again," said Pal Atle Skjervengen.

He had only contempt left over for the policies which the parliamentary group have pursued following the election. "Let us stop competing with the Socialist Left and the Labor Party for those voters who put a higher priority on pensions than personal freedom," was his advice to the national congress. The speech made an impression, but not one person present took up the gauntlet. Skjervengen's opponents contented themselves with talking in general terms about freedom with social responsibility.

The party chairman had his words in check when he thanked the national congress for a positive debate and for constructive criticism. But the opponents within the party also made better statements in what was not said than in the, at times, seriously toned-down speeches which were given.

#### Entire Leadership Survives Challenge

Oslo AFTENPOSTEN in Norwegian 7 Apr 86 p 5

[Article by Ole Johan Nilsen: "Reelected Leadership Trio to 'Ressurect the Old Lady'"]

[Text] "From here on, it is upward. We are now going to ressurect the old lady. The spirit of 1977-78 has returned to the party." With these words, the Progress Party's reelected chairman Carl I. Hagen closed the party's national congress yesterday afternoon. A meeting which he thought had put to shame the speculation and quarrelling and defeatism. But he pointed out that hard work lies ahead--among other things, with regard to an internal debate on whether the party should attempt to cooperate with the government--something which his political vice chair Anne Beth Moslet has proposed. Eivind Eckbo issued a strong warning against destroying the party as he left the table following ten years as party spokesman.

"A national congress with indications of revitalization," said Hagen as he closed the meeting. At a press conference thereafter he described in greater detail the job ahead: hard, serious work with better marketing. There will be a "necessary internal debate" within the party concerning the vice chair's proposal for the Progressives participating in the government. Will that lead anywhere?

"It is clear that it is significant," Moslet said, while pointing out that according to the opinion polls, 18 percent of the voters think the party should be part of the government.

[Question] "Was this presented to Hagen before you made your speech?"

[Answer] "It was aired as an idea among the central committee and the national leadership," said the vice chair. Hagen--who denied that he had "looked happy" during Moslet's speech--made clear that the present debate will take considerable time. "No conclusions have been reached yet," was his comment by way of further emphasizing the point.

#### Election

The leadership trio was reelected. Party chairman Carl I. Hagen, Oslo, with 78 votes and 9 blanks, political vice chair Anne Beth Moslet, with 75 votes and 12 blanks, while organizational vice chair Hroar Hansen, Buskerud, received 80 votes and 9 blanks.

Lodve Solholm from More and Romsdal became the new party spokesman, succeeding Eivind Eckbo who has held the position for 10 years. He departed with a clear warning to the party against destroying in a matter of days what has been built up over many years. Many years have been spent patching the cracks in the party, Eckbo said.

In the election of the remainder of the central committee, six candidates were proposed in addition to the election committee's slate. Elected were: Tor Reidar Bolan from Finnmark, Kjell Ryberg, Oslo, Hans Rosjorde, Hordaland, John Alvheim, Telemark, Bente H. Martinsen, Ostfold, Steinar Maribo, Buskerud, Harry Jensen, Nordland.

It was noteworthy that Hagen had requested written balloting after the head table had voted on behalf of the delegates--a method which had been implemented to save time. Thereby, possible blank votes would have been hidden--something which Hagen clearly had not wanted.

#### 'Puppets'

During the discussion concerning local government policies, speaker Oscar Hillgaard emphasized that the party take a more critical position concerning listing candidates in localities where minimal voting results had been achieved. One speaker called certain party representatives on local government boards "passive puppets"--who have never made a speech or put forth a single proposal since they were elected in 1983. This needs to be cleaned up or else the party will be confronting a bad election in many localities in 1987, it was asserted.

#### North Norway

With 10-12 dissenting votes, the national congress gave its support to eliminating all national taxes in the three most northerly districts. Calculations are that this would result in lost income of 810 million kroner in 1985 kroner. A recommendation also was approved that the party support all efforts to increase the evaluation of home care work by women.

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CSO: 3639/93



POLITICAL

PORTUGAL

PSD/PRD RELATIONSHIP DISCUSSED BY PSD ANALYST

PRD in 'Difficult Situation'

Lisbon SEMANARIO in Portuguese 27 Mar 86 p 16

[Commentary by Jose Miguel Judice]

[Text] The PRD [Democratic Renewal Party] is in a difficult situation. In order to survive, it is forced to simultaneously support and oppose the government. The PSD should take advantage of this and not save Eanes' party.

What should a political party in power, which does not have a majority in the Assembly of the Republic, do to get its own legislation through parliament or avoid having to govern with the legislation of others? What should it do if it wants to govern because it feels conditions are right for it to do so but it is surrounded by other political forces in various stages of crisis and none is able to provide a viable consistent alternative or feels it would do well in an election were it to bring down the government? What should the PSD do?

There is a simple, almost obvious, answer to this question. The PSD should continue to govern as if none of this had anything to do with it. It should go directly to the people and put the deputies face to face with the inherent weakness of arrogance and impertinence. It should raise the stakes gradually and meanwhile exchange ideas with all political forces equally. It should always be open to reconciliation on detail while being resolute on the essential.

The obvious answers, however, are at once easy and inadequate. The above response is obvious but only because it does not go to the crux of the matter. What relationship should the PSD have with the PRD? In reality, an association with the CSD will exclude the possibility of forming an absolute majority in this legislature, an association with the PCP will only allow for agreement in those rare (or frequent) unimportant cases and one with the PS is (like it or not) by definition the most polemical.

In fact, the PS cannot but systematically oppose the government even if it has to hide it in order not to debase Soares' image and not accelerate a political crisis that is not in its best interest at the moment. The PS is doomed to do this for two reasons: the first can be labeled the struggle to lead the Left

at an opportune moment (the result of Soares' victory) and inopportune because of internal conflicts and the presence of Ramalho Eanes who certainly also wants that leadership position.

However, the second reason is not the least important. It is the internal power struggle taking place in the PS. The Socialist rank-and-file is aggressively anti-Cavaco (for known reasons) and it wants a victory because it feels Soares' election victory can be repeated. Anyone who appears to compromise with the PSD during this critical period, anyone who appears unaggressive or conciliatory, anyone who supports or favors an agreement with the PSD will be put in the pillory by the militants and transformed into the source of infection and death.

In reality, it is for this reason that the government's strategy is first and foremost one of the relationship with the PRD. Here, there are several assumptions that can be put into practice. However, before we do that we must first sum up the PRD's many and complex problems.

In the first place, the PRD is a nonentity. It needs time to organize itself. Secondly, the PRD has no cohesiveness other than its support for Gen Eanes as a presidential candidate or as president of the republic. It needs time so that Gen Eanes can become something other than the above. Thirdly, the PRD knows that if it has to define what it stands for too early (before it can become cohesive) it risks losing those voters who did not answer the call to vote PRD in the local elections, did not vote for Zenha and later refused to vote for Soares. Fourthly, the PRD does not know what to do for Gen Eanes and Gen Eanes does not know what to do with himself. He does not know whether he should become the future leader of the Left, the guiding light of a new centrist bloc, the catalyst of a new majority or the Gaullist-like spectator (interested yet distant) of the RPF [Rally of the French People] phase.

Having said this, let us now look at hypothetical parliamentary relationships between the PSD and the PRD. The first hypothetical situation is to transform it into the PSD's main adversary by accusing it of putting up all the roadblocks in front of the government. This would force it to take a stand; either in support or opposition to the PSD. This theoretically admissible idea is ruined by the existing relationship between the two parties and, in my opinion, it would be counterproductive as is everything that is excessive and which can be easily dissected.

The second assumption is for the PSD to propose a parliamentary agreement to the PRD in a straightforward and clear manner. This agreement would contain a framework for systematic and regular consultations prior to undertaking any legislative work and compensation or support for some of the PRD's "plums" to satisfy the parliamentary gallery or the voters. This idea has theoretical possibilities. There is no guarantee that it is not now in practice and, of course, it is exactly what the PRD wants. This is especially true if the agreement is not public and does not require it to fully define where it stands. It is not, however, an advantageous assumption for the PSD. On one hand, this kind of agreement would destroy the PSD's capacity to threaten the PRD and, in time, it would "cleanse" the latter with the social democratic bloc (where it was unable to expand because of memories of

Sa Carneiro more than anything else). Furthermore, it would allow the PS to stiffen its opposition because it would be sure there was no risk Cavaco Silva would leave.

The third assumption is to force the PRD to pay the cost of its stands. On the one hand, the PSD would give it nothing in return for the timely support it feels it must provide. In so doing, the government creates uncertainty within the PRD so that it can never be sure that the first time it refuses to support the government it will not have a problem on its hands; a disclaimer by Cavaco Silva for which it would have to answer for to the nation. On the other hand, the PSD should remain completely intolerant of the PRD's compensatory attitudes: its opposition to the government to satisfy the leftist fringe of its electorate and deputies.

What this means (and it must already be obvious that this is my proposal) is that the PSD should establish a relationship with the PRD that is more demanding than one it would have with an ally, it should be more intransigent than one with an adversary and firmer than one with a counter force. This must be so because the PRD is now, to all intents and purposes, a political force that, in order to survive, must support the government, oppose it and be a counter force within itself. Now, if this is the case, the PSD's greatest mistake is to treat the PRD as if it were merely one of the above and allow it to boldly be each one at will, according to its interests and needs.

If this is the case, however, then some already obvious points follow. The first is that the PRD's margin of political maneuver is only as wide as the PSD makes it. The second is that the PRD's actions have nothing to do with honesty or dishonesty and cannot thus be anticipated on the basis of ethically motivated acts. The PRD acts as it does and it will act as it will because it has the problems it has, it is positioned where it is and it runs the risk it runs.

There is another point, the importance of which only amateur politicians will fail to understand. It is not in the PSD's interest to pull the PRD to the Right, but to push it to the Left. There are two reasons for this. First, to place the PRD more on the Right is to make it more a PSD rival and less a PS rival. Given that question of the leadership of the Left has yet to be resolved, it would be very adroit to let Gen Eanes loose in the midst of this war. Secondly, to lean the PRD to the left is to open up more space for the PSD to grow in that direction and to contribute to Portugal's political equilibrium. Portugal is more to the Right when the Left's border lies to the right of Soares than it would be if it lay to the right of Zenha (even if he was defeated).

Now, if this is the case, everything that brings the PRD closer to the PSD, even if it pays off in the near term and we have seen that it does not, is similar to bringing a rival home and it increased the PSD's future difficulties in affirming itself. In fact, as soon as it became possible for the PS to credibly state that Cavaco and Eanes were one and the same, it would be in the PS's interest to pledge itself to grinding down this government.

22 May 1986

It would support it beyond belief. For example, it would call on Cavaco to form a new government, if he were to go along and resign now, based on the justification given in Belem that Cavaco and Eanes could form a majority government.

Could it be that the PSD is understanding all of this? In other words, could it be that some PSD members' eagerness to hold on to power (which has made commit serious strategic errors from which, fortunately for them, they have come out unharmed) will not save the PRD from the difficult situation in which it finds itself?

Although Cavaco Silva already has acted in a strategically correct manner, when many swore or feared he would not do so, it is difficult to know at this time. Given the state of things, that is a real hope. However, let us wait. We will probably not have to wait long to obtain the proof.

#### No 'Understanding' With PRD

Lisbon TEMPO in Portuguese 4 Apr 86 p 11

[Interview of Jose Miguel Judice by Joao Rosa]

[Excerpt] "The PSD holds all the cards and it is the PRD that must avoid taking any risks. The reason for this is that (1) Mario Soares' victory was a great defeat for Eanes and (2) the PRD is blocked politically to its right by the memory of Sa Carneiro," said Dr Jose Miguel Judice in an interview he granted this week. Judice is the president of the PSD's Lisbon district organization as well as a political analyst and lawyer. During the interview, he also revealed the three basic points contained in a motion he will make at his party's next congress.

We began the interview with an analysis of the PSD's position given the current political and partisan picture. We asked him: Is the PSD now condemned to govern?

Jose Miguel Judice "would not like it to be. A party that becomes condemned to govern always draws an excessively high number of opportunists."

"I hope not. As a matter of fact," he said, "the PSD is in fact a party that, because of its sociological composition and support, can be classified as a governing party. It has the potential to always be in power even when it is in the opposition. Nevertheless, because of the current political situation, the PSD will be able to have a hegemonic position for the next 10 years if it does not make any mistakes."

Meanwhile, the PSD is not in power now merely because it deserves to be but essentially because of the needs and conveniences of others, other democratic forces that could form a governing alternative...



"That is true but it is not the whole truth. That is to say, if those parties (democratic or not) that are now out of government were to unite to bring down the government, it is very probable that the PSD would return to power with even more electoral support than it now has. This is the basic reason the opposition does not want to bring down the government. It is, therefore, not only or mainly because of the weakness of others that the PSD is in power. It is in power because of its own strength.

#### An Assumption I Believe No One in the PSD Accepts

Here we are then, face to face with one of the most talked about points contained in current political analyses.

The Cavaco Silva government is, in the final analysis, in the hands of the PRD, especially as it tries to pass its own legislation. Is or is not Sa Carneiro's party condemned to reach an agreement with Ramalho Eanes' party (and vice versa) at a time when the PSD itself is involved in heated debate internally?

Jose Miguel Judice does not agree with us. He feels that the PSD does not have to reach an agreement with the PRD.

"The truth is that it is the PRD which is forced to keep this government from falling so early on in its term. It is the PSD that holds the cards and it is the PRD that must avoid taking any risks. The reason for this is that (1) Mario Soares' victory was a great defeat for Eanes and (2) the PRD is blocked politically to its right by the memory of Sa Carneiro. The Eanists are boxed in between these two factors. As a result, the PRD cannot be purely opposition party nor a party that clearly supports the government. It must try to balance itself in a position of support and opposition. Furthermore, the PRD depends on the PSD's indulgence in its game of being all things to all people. There will be a day when the PSD will have to decide and tell the PRD that it must take a stand; either it systematically supports the government or it systematically opposes it. This does not mean that there is a probability we will form a coalition with the PRD in the meantime. I believe this is an assumption that no one in the PSD accepts. It is a purely academic assumption."

#### Eanes and the Destruction of the PRD

Even before the PSD could possibly force the PRD to clarify its position, could the PRD choose systematically to oppose the government in the event that Ramalho Eanes assumes the leadership of the democratic Left (to the detriment of the PS's next leader) when he takes over the party leadership?

We put the question to Jose Miguel Judice. He believes that "the objective factors outweigh the personal desires." He explained:

"Gen Eanes can choose to do whatever he wants to but he will never choose to create a political crisis that will destroy his party. As a result, it is not expected that he will allow PRD leaders who are less responsible to pull too hard on the rope. Should this happen, Cavaco Silva will blame the opposition parties for his resignation and later strengthen the PSD and himself in the elections. He will accomplish this partly with the help of those voters who voted PRD on 6 October."

## Preferential Understanding Between Cavaco and Freitas

Meanwhile, Jose Miguel Judice confirmed that he believes the PSD should maintain a strategy of isolation: a clear "no" to any coalition involving the PSD.

"The PSD should not form any coalition at the national level with any party at all. That is precisely one of the points I will be presenting at the party congress concerning strategy. This decision is consistent with what I already said. The PSD now (and even in the future) has the kind of voter support that brings it closer to achieving an absolute majority. Another point that seems crucial to me is to have, as there has been until now, a preferential understanding between Cavaco Silva and Freitas do Amaral. It was PSD militants who provided the verve in Freitas do Amaral's presidential campaign. Voter support for Freitas do Amaral translated into support for Cavaco Silva. The PSD should, therefore, open itself up to independents and social forces within its political area and it should not form nationwide coalitions with other political parties."

Has the possibility of bringing out the old AD been discarded?

"I feel that it is not desirable to have the formalities of a coalition such as the AD at this time. This does not mean that for political, sociological and even cultural reasons the two parties are not close, which permits them to cooperate," he retorted.

Are you saying then that there should be a closer relationship between Cavaco Silva and Freitas do Amaral than between the PSD and the CDS...

"Yes, it should be at a higher level. However, I am not making a simple comparison. I am merely saying that those independents who supported Freitas do Amaral identify more with the PSD and Cavaco Silva than they do with the CSD (whoever its next leader may be)."

Is this already in preparation for the next presidential election?

"No. I feel that what we must now do is to govern. That should be the PSD's big objective. We should not concern ourselves now with the next presidential election because it will clearly be the PSD that will, at the right time, select the candidate from its camp who will have the greatest chance of winning. The PSD should also try everything to keep this government going without recourse to early elections. However, it should always be ready for early elections, much like an army is always ready for war. At all levels, it is always preparation for war that prevents it from breaking out, rather than unfounded innocence in thinking that wars are not possible.

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POLITICAL

SWEDEN

# KARIN SODER ACCEPTS CENTER PARTY LEADERSHIP

## Rejects Formal SDP Alliance

Stockholm DAGENS NYHETER in Swedish 24 Apr 86 p 8

[Article by Magdelana Ribbing: "Karin Soder Is New Party Chairman--A Gathering Force for the Center Party"; first paragraph is DAGENS NYHETER introduction]

[Text] Politicians will certainly notice that the Center Party has a woman as its leader. Karin Soder hoped so on Thursday when she told how she said yes to the Nominating Committee. She will be elected officially in June, but she is already improving the mood of her party.

Perhaps it was Karin Soder herself who was the most surprised at the decision to say yes to the Center Party's Nominating Committee, six weeks after the question was asked whether she would run for chairman. All those around her really thought she would say yes at the end. But she actually had not made up her mind until shortly before she phoned Inge Pettersson of the Nominating Committee shortly before seven on Thursday morning.

Support from the movement and from sisters in all camps played a large part in her decision, she explained. And the evening before she spoke with the chairman of the youth league, Andreas Carlgren, who advised Thorbjorn Falldin to resign. A positive conversation, she said. Andreas Carlgren thought so too. Karin Soder showed the ability to renew the policies, she listened and could build up a different tone, and she is a gathering force.

What about Thorbjorn Falldin, then, her predecessor?

"As far as I can tell he has no objection to my running. And it could be pleasing to him that I decided on his 60th birthday, which is today."

Forego the Steam Bath

When Karin Soder holds a press conference, as on Thursday, it is usually light and friendly, with laughter and snappy replies. She will forego the steam bath meetings held by the nonsocialist brothers, she said gaily, but she will naturally continue to meet with the gentlemen to discuss common issues. But



it is important that each party show its profile and special character. And Karin Soder is prepared to take some abuse from the nonsocialist gentlemen because she is going to advance a number of issues from the woman's viewpoint.

In today's situation there is nothing that calls for government cooperation with the Social Democrats, but neither is there anything to prevent the Center Party from cooperating for good results on the issues. Ingvar Carlsson has carried out his obligations in an exemplary way, said Karin Soder--the vigor he showed when he immediately took charge of Sweden was very positive, she said.

#### Prime Minister

Could she visualize herself as prime minister in case of a nonsocialist majority in the coming election? Of course.

"I have thought about it a little, that goes with the job that I accepted. A party chairman can never forswear the responsibility."

Karin Soder has not established any definite time for taking over the party leadership. That will be settled in the future. In the light of the situation today she is optimistic about the future of the Center Party. "There is a good mood in the party now," she said, "the regrets which followed the big election losses are finished."

#### Karin Soder Profiled

Stockholm DAGENS NYHETER in Swedish 24 Apr 86 p 8

[Article by Magdalena Ribbing: "A Real Powder Keg"; first paragraph is DAGENS NYHETER introduction]

[Text] A lady and a powder keg, a fast-talking aunt and a particularly lucid person is Karin Soder, who will be Sweden's first woman party leader. She has been the first woman to hold other distinguished posts as well, but it is true when she says that she has never sought high positions, merely made herself available.

Karin Soder agonized a lot before she said yes to the Center Party Nominating Committee. But she says that one must finish what one has begun. Her motto could well be, "Duty Before All."

Her femininity is an important reason why Karin Soder wants to shoulder the burden of chairmanship of the Center Party. It is good for all women that more of them are taking masculine jobs. During the time when she was temporary party chairman her political opponents even advised her to say yes. Karin is good and capable.

Another major reason why Karin Soder is now willing to pay the high price demanded by the chairmanship of a political party is the many party colleagues who want her to lead the party. What is good for the party is also good for

Karin Soder. She has lived with the Center Party all of her adult life. She married the neighbor boy, Gunnar Soder, who once was the close political colleague of Farmers' Union leader Gunnar Hedlund, and to the Center Party she seems like the combination of country girl and big-city dweller that she is.

### 'Powder Keg'

Karin Bergenfur was born in 1928 in Frykerud, Varmland. She was the daughter of a precentor and a teacher. When it was time to go to college she moved to Gothenburg, and graduated in 1948. Two years later she took the examination for elementary school teacher in Falun, and then began her career as an elementary school teacher, first near home in Sunne, later in Vallingby and beginning in 1955 in Taby, where she still lives. Her students remember how angry she could get sometimes, and called her "The Powder Keg" because of her expressive anger.

In their white house in Taby the Soders have raised three children, now grown. Their home chores are divided so effectively that Karin Soder often has time to bake a cake for her fellow workers at Center Party headquarters in the Riksdag Building.

And she manages to maintain her wardrobe also, a number of practical and coquettish dresses which can be washed at home. Despite all this, Karin Soder is in her office--with a view over the water, trees and Stockholm's fishermen--before eight in the morning. She does not go home until the day's work is finished. Neither restaurants nor hockey games take precedence.

### Good Relations

In the Riksdag Karin Soder has sat on the bench of Stockholm County since 1971. She had her first Riksdag debate with Ingvar Carlsson, whom she likes, just as she had good relations with Olof Palme. And she warmly describes how the Social Democrats helped her as foreign minister following the shift of power in 1976, when former Foreign Minister Sten Andersson was at hand when she needed advice.

She really stepped into the limelight when she became foreign minister, and Karin Soder enjoyed herself in the Foreign Ministry. She jokes about herself, that she was called "the queen" at the ministry, as in a chess match, as she was moved around by different conflicting groups there.

### Consideration

"I like to take advice, I am not ashamed of that. The experts know more than I do," she said.

That is typical of Karin Soder, she does not hesitate to say that she does not know something. But she acquires the knowledge when she needs it, and that also leads to a weakness of hers: she takes on too much, just because she is interested--and dutiful.

Karin Soder is exceptionally considerate, according to everyone who deals with her. She remembers, and she thinks of others. She inspires calm and confidence, although she can be aroused, as when Thorbjorn Falldin resigned. This dark spring the deaths of Olof Palme and Anders Dahlgren deeply moved her, and she refers to them often.

Because she is a woman, and because she talks so much, she is more visible in the media than other members of the Center Party. Somewhat unfairly she became associated with some unpopular political issues such as the reestablishment of the waiting days in health insurance, although it was a Conservative demand when they were out of the government. And the Saturday closing of the state liquor stores, although this idea really came from the Liberal Party. But Karin Soder was drawn in with them, and stood up against the storm.

It is a little exciting and a little fun to be the first female leader of a political party in Sweden, says Karin Soder. She clearly likes it.

#### Liberal Newspaper Supports Choice

Stockholm DAGENS NYHETER in Swedish 25 Apr 86 p 2

[Editorial: "Karin Soder a Good Choice"]

[Text] Karin Soder is taking over her party in a situation which is rather favorable for the Center Party. The color of the next wave of opinion, whether red, green or blue, can certainly not be distinguished, but the reduced tensions between the government and the opposition benefits the Center Party. The party can advance its own issues without appearing to split. When the Conservative Party leader says that Ingvar Carlsson is a man with whom one can make lasting agreements, the door is open for red-green deals on all questions which apply to the Center Party. Ulf Adelsohn has personally let the Center Party out of the conservative cage.

As newly appointed party chairman last fall Karin Soder said that the thought of closer cooperation with the Social Democrats was "absurd." Since then Olof Palme has passed on, and his successor has managed certain elements of political bridge building. During the same period Sweden's economy has improved because of the declining dollar and declining price of oil and a two-year labor agreement. Today nobody expects any hard attacks against the Social Democrats, least of all from the Center Party. In a few months the political mood has entirely changed.

Today Karen Soder is the rallying name in the Center Party. She herself says that it is politically significant that she is a woman, and it was the support and persuasion of many women which caused her to run. It is a breakthrough for equality that we have a woman party leader.

We believe that it is also significant for Center as a party. Karin Soder is new and different as a party leader type. She makes Ingvar Carlsson, Bengt Westerberg and Ulf Adelsohn appear very much alike. Olof Johansson, at least superficially, appears to be another party leader of the same type. Now the

Center Party has by its choice attained a certain profile which will be approved by large groups of voters. From a humanitarian standpoint the party has made a good choice.

However, nobody can be seriously tested for the job of party leader in any other role. Like Ingvar Carlsson, Karin Soder has broad political experience in central functions. They have both had successful starts as party leaders. But nobody can know whether they also have the negotiating ability and intuition required in difficult situations, when the party leader must personally set the party's political course if the party is not to break up from within. Both the Center and the Social Democratic Parties have rather diversified coalitions which need a strong-minded leader. The crisis of recent years in the Center Party was largely because Thorbjorn Falldin's authority was not sufficient to hold combative wills in check.

For the near future the Center Party will push hard for its traditional main issues. When the deficit problem decreased and growth began it became easier for the Center Party to make regional policies a big issue. Thus the party puts itself in strong opposition to government policies at the same time as it distances itself from the Conservative and Liberal Parties.

The February report from the Political Analysis Group shows rather clearly the direction in which the Center Party is moving. The demand for work for all is called "the large national solidarity question of the future." The main means is to be the introduction of the six-hour workday. The report is mildly critical of the party for going against the wage earner funds without at the same time pushing its own line on the issue of concentration of power.

All this indicates a lukewarm belief in the market economy. To introduce a six-hour day to attain full employment is an ideological impossibility for parties led by Ulf Adelsohn and Bengt Westerberg. When the Center Party adheres to a decentralized economy it is understood that there is a strong national power with great resources which will influence regional development. In practical politics the Center Party can thereby come very close to the Social Democratic Party.

At the press conference on Thursday Karin Soder emphasized the importance of diversity in a democracy. "The Swedish people expect us to talk about what we really want to do."

But if the Center Party wants to contribute to some form of power balance between the Social Democrats and the nonsocialists, it will not be enough to advocate diversity. The existing idyl is not going to last. Not even Ingvar Carlsson is such a gentleman that he is going to refrain from pointing out the nonsocialists' inability to create a lasting political alternative. Karin Soder should demonstrate that she wants to take her party back to a governing position.

#### Other Party Leadership Changes

Stockholm DAGENS NYHETER in Swedish 26 Apr 86 p 7

[Article by Magdalena Ribbing: "Change at the Top of the Center Party--Five Old and Five New"; first paragraph is DAGENS NYHETER introduction]

[Text] The new second vice chairman of the Center Party will be farmer Karl Erik Olsson from Skane, if the Center Party votes in June as the Nominating Committee intends. On Friday it became clear which 13 names are being recommended by the Nominating Committee to form the modernized party leadership.

It is clear that Karin Soder will be the chairman. Olof Johansson will be pulled up to her former post of first vice chairman. After him as second vice chairman the Nominating Committee recommends Karl Erik Olsson from Sosdala, recent member of the Riksdag since last fall, and member of the merit list from 1979 to 1982. He is chairman of the Riksdag Agricultural Committee and one of the most active in the Center Party ideological debate--mostly when he was chairman of the youth league 1971-1974.

Of the 13 members of the nominating committee, two reserved their votes in favor of the other strong candidate for the second vice chairman post, Ombudsman Per-Ola Eriksson from Gammelstaden outside of Lulea. A resident of Norrbotten County is needed in the party leadership according to many members. Per-Ola Eriksson, who was born in Kalix, has been chairman of the National Committee for Sparsely Populated Areas, and has written a number of reports on regional politics, which he also debated with Olof Palme and Thage Peterson.

The chairman of the Nominating Committee, Inge Pettersson, said after the long meeting on Friday that attention was paid to the large consultation which the Center Party recently conducted. There it was said that environmental questions should be profiled and that relations with the unions should be improved.

"Therefore," said Inge Pettersson, "the Nominating Committee recommended five new members for the party leadership in addition to the three with chairman titles." The Center Party leadership has 13 members and 5 "old" were recommended to remain: Gosta Andersson, Nils Asling, Borje Hornlund, Ulla Tillander and Ingrid Pettersson.

New members recommended for the party leadership are Folke Hagerstrand from Enkoping, Chairman Lennart Daleus of the Swedish Civil Servants Union, Roland Larsson, who is chairman of County Commissioners in Linkoping, Helen Andersson, vice chairman of the youth league and bank employee in Halland.

#### Too Few Women

Furthermore Per-Ola Eriksson was recommended as a new member of the party leadership--as a resident of Norrbotten and with the support of many in the party. Inge Pettersson admitted a bit sorrowfully that they had not succeeded in getting as many women as they wanted in the party leadership, but four are better than none, of course.

But it will be the votes of the Center Party in Uppsala in the middle of June which will elect the party leadership.

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CSO:3650/191



MILITARY

EUROPEAN AFFAIRS

## MULTI-PURPOSE SURFACE EFFECT SHIP BEGINS NATO SEA TRIALS

### Military Applications Under Study

Bonn WEHRTECHNIK in German Apr 86 p 46

[Article: "NATO Navies Test New Surface Effect Ship"]

[Text] Canada, France, the FRG, Spain, Great Britain and the United States have joined forces for an extensive test program for a surface effect ship (SES). In this program, the United States wants to present its SES, which displaces 200 tons.

The test program is being carried out in Europe from 16 January through 24 August 1986. A small crew of 18 members of the U.S. Navy will present the "SES-200" ship in tests to be carried out from the following ports: Portsmouth, Portland and Plymouth in England; Brest in France; El Ferrol in Spain; Eckernfoerde in the FRG; and Halifax in Canada. Each country, represented by its national test installations, will perform a series of specific tests that check the military suitability of this ship type. The tests are to yield data that examine in particular the marks of the SES--its shock-resistance, its sea characteristics, its maximum dead weight carrying capacities, its conditions for the crew, and the possibility for cooperation with other ships. Although surface effect ships are already being used successfully in the area of merchant shipping, and have been for years, the potential military applications are now to be investigated purposefully. Among the NATO nations, SES's are already in various stages of introduction.

Conceivable applications in the military area include utilization as support ships for smaller units, as antisubmarine ships and mine-countermeasures ships, and as smaller fast patrol boats and patrol boats.

## Baltic Sea Trials Planned

Hamburg DER SPIEGEL in German 21 Apr 86 pp 71-74

[Article: "Flat Foilborne Flight"; first paragraph is DER SPIEGEL introduction]

[Text] The NATO navies want to flit over the seas with a militarily useful surface effect ship.

The float moored at Pier 2 of Eckernfoerde-Nord Naval Base looks like an abandoned work platform with a pilot house, bare and ash-gray. A flagpole with the American Stars and Stripes on the stern and a slightly arched bow make clear that it is a matter of a watercraft.

The unadorned floating stand bears the abbreviation "SES-200" and is lauded by Bonn arms experts as the "ship of the future." The U.S. Navy has developed the prototype, the surface effect ship (SES), a militarily useful combination of catamaran and an air cushion boat.

In the case of the SES, the ship--to the catamaran sailboat--rests on two side hulls, between which a powerful cushion of air is blown. Kept between the hulls through flexible rubber aprons at the bow and stern, the air raises the ship as much as 1 meter out of the water.

Through the smaller displacement, the ship, 48.5 meters long and 11.9 meters wide, achieves "substantially better performance" than conventional warships, according to the Defense Ministry in Bonn. The novel SES's can nimbly flit over wave crests in "airborne propulsion," as the experts call it, and they likewise offer a smooth platform for military operations. In addition, these boats are not as susceptible to water mines. The ship reminds one "more of an aircraft than of a ship," as Commander Karl Friedrich Schinkel from the General Navy Office in Wilhelmshaven says.

The wondrous boat has been stationed in Eckernfoerde since Monday of last week. By the end of May, Federal German Navy wants to test its seagoing qualities, maneuverability and reactions to nearby explosions thoroughly in Skagerrak and in the middle Baltic.

The FRG has entered into an agreement with its NATO partners the United States, Canada, France, Spain and Great Britain that mutually ensures the allies extensive testing possibilities and data--a favorable opportunity for German arms experts "to make up for 20 years of development," according to Hans Scheel, responsible armament official in Bonn.

Because research resources are scarce, the Federal German Navy has not had any epoch-making technological successes" for years, as the Defense Ministry laments. Ship models that could replace the conventional "displacement ships" from the fast patrol boat to the destroyer are now largely built only by the Americans and British.



The United States developed militarily useful hydrofoil craft that attracted attention because of "outstanding maneuvering behavior" (Defense Ministry) but also turned out to be especially costly. In addition, the Americans, British and Soviets built SES's for military missions similar to those known by tourists to England as Hovercraft ferries over the English Channel.

For the Federal German Navy, pure surface effect ships are "less interesting" because it does not want to "start any amphibian attacks," according to a high officer in the Defense Ministry: "We do not want to take any blame."

A "detailed plan" by the Bonn officials foresees the laying of their own SES in 4 years at the latest: 64 meters long, 14.5 meters wide, and 40 to 50 knots fast. With the first German SES costing as much as DM100 million, technicians and planners should "be able to let off some steam" (Scheel). On board, not only equipment and weapon systems are to be tested but also the "potential applications" of the new ship form are to be investigated so that the "link to new technologies is not missed" (Defense Ministry).

To be sure, the arms planning through 1999 still shows no resources for the series production of the SES. But for "prephase activities," as the Bundeswehr describes its weapon studies, there are already DM300 million as "naval military hardware" available for the next 4 years alone. And the military political consolidation on the way to a new generation of naval ships is being pushed systematically. "The weakness" of the German Navy, according to Hardhoehe studies, is now in the fact "that 40 percent of the combat ships will be completely obsolete by the mid-1990's."

Neither will the celebrated new creation be a pure pleasure at sea for the military. After a difficult move from Brest, in which the "SES-200" obviously did not get high enough and touched bottom, the ship chugged for the time being at the pier in the Eckenfoerder harbor--with a damaged propeller.

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MILITARY

FEDERAL REPUBLIC OF GERMANY

## ADVANCES IN PROJECTILE, PROPELLANT TECHNOLOGY REVIEWED

Bonn WEHRTECHNIK in German Apr 86 pp 36-44

[Article by Norbert Roy and Ulrich Steinmann: "Weapons and Ammunition: What is the Trend: From the Work of the Rue VII Division"; first paragraph is WEHRTECHNIK introduction]

[Text] Diplomate engineer Norbert Roy, assistant ministerial director and head of the Rue VII [Armaments Subsection Propellants and Projectiles], and Ulrich Steinmann, diplomate engineer and construction director, report on the self-understanding of the weapons and ammunition branch and current trends in this area. The advanced development of KE [kinetic-energy] and shaped-charge ammunition is stressed; "low vulnerable ammunition" (LOVA) and "modular propellant charges" for tube artillery are presented as new aspects of ammunition development. One has great hopes for liquid propellants as an innovation in tube artillery. Electromagnetic guns and laser weapons, on the other hand, are viewed with skepticism.

### Continuity--the Basis for Innovation

Weapon and ammunition are the core of any weapon system; ultimately it is only with them that the effect on the target is achieved and only this justifies the existence of the weapons carrier. Everyone will accept this statement as a matter of course and it would not need to be mentioned if in the past it had not on occasion been violated in the planning and conception of tanks, ships or aircraft.

Weapons and ammunition are not merely system-determining factors; their development is also always time-intensive, because objects containing explosives require--not just because of legal regulations--careful testing and qualification before one can in good conscience turn them over to the soldiers. Precisely in this area, therefore, all "crash" actions and high-pressure programs are subject to especially tight restrictions. In this respect, current complaints about obsolete weapons and inadequate ammunition apply not so much to the engineer, who works "to order," but primarily to the requisitioner who has shown a lack of farsightedness and planning continuity.

Ultimately continuity is also required from the point of view of industry. The German weapons and ammunition industry--not very well-loved by the

public--is largely dependent upon the Bundeswehr, its contracting authority. The international market is largely closed to it for political reasons and related civilian markets that one could fall back on when orders slump exist here least of all. A national weapons and ammunition industry cannot survive without an adequate "base load" through the Bundeswehr.

These preliminary remarks are necessary when in the public the talk is much too one-sided about "high technology" and "innovation." Especially here, a minimum of continuity is the basis on which innovative technology can develop.

#### Ammunition--Current Focal Point of Bundeswehr Planning

Many map maneuvers and exercises in recent years have shown that our ammunition stocks would be precariously low in a possible conflict. And in part, the quality of the ammunition no longer corresponds to the higher standards conditioned mainly by the worldwide trend toward improved armor protection. Both aspects--quantitative as well as qualitative deficiencies--hold true for artillery ammunition. The improvements and new developments there were first reported in detail in the October edition of WEHRTECHNIK, so that the subsection Rue VII with one of the main efforts in its work has already been presented. The main features of the development are to be briefly outlined here once again.

As a first step toward an effective artillery ammunition against armored targets, shaped-charge bomblets will be used as subammunition both for tube artillery as well as for the MLRS rocket system. Even though this ammunition may well be rather effective against lightly armored targets and older models of battle tanks--the kill probability in the case of a direct hit is in the range of 10 to 20 percent--three weaknesses are apparent for this type of ammunition:

--Even for smaller area targets, enormous quantities of ammunition are needed for an adequate destructive effect--normally the elimination of 30 percent of the target elements is required. Even under favorable limiting conditions, it is calculated that tube weapons need well over 100 rounds of 155-mm ammunition, which which it is normally difficult to hit targets.

--The large number of bomblets is tantamount to a large number of fuzes, which necessarily leads to a high risk of unexploded rounds.

--Even by increasing the caliber of the bomblets, no reasonable relationship between effect and ammunition requirement can be achieved against modern battle tanks, especially those with special protective configurations in the roof area.

The second step is therefore the so-called search fuze ammunition. With it an armored target within an area of about 10,000 square meters can be detected and engaged by means of a so-called projectile-forming or P-charge, a variety of the shaped charge. Such ammunition is sometimes designated as "half-intelligent ammunition," a designation that plays down the enormous demands on the speed of signal processing, for the decision to ignite the P-charge must

occur within about 1 millisecond. With such ammunition--presupposing good target acquisition--is hoped that one can destroy small and medium-sized area targets with a few dozen rounds.

Finally, the third step will be the terminally guided artillery projectile or the terminally guided subammunition in the MLRS rocket system. This ammunition covers substantially larger search areas in the magnitude of square kilometers and can thus do a good job of finding and hitting relatively imprecisely detectable targets as is the case especially for vehicles on the move. In addition, the direct hit with a large shaped charge ensures an adequate penetration and destructive effect. It is believed possible to destroy company targets with about a dozen 155-mm guided projectiles or one or two MLRS-TGW rockets.

For about 2 years now, the large pent-up demand for ammunition has been taken into account through increased procurement. In addition, the Bundeswehr planning also provides for a continuous increase in the ammunition list during the next 5 years as well so as to stay at a high level until the existing planning horizon is reached, that is, until the year 2000.

Even with a skeptical view of all of the planning and possible cuts, the agency and the industry are receiving a volume of work for which both areas must make adjustments in personnel and organization.

In the equipment section itself, in this connection they are considering shifting most of the guided missile projects from the subsection Rue IV to Rue VII, after the antitank guided missiles have already been handled here for about 2 years. The technical relationship between terminally guided ammunition and guided missiles makes that appear reasonable. Under these considerations--because of the close connection with the fighter aircraft--only the air/air missiles are to remain with Rue IV.

It should not go unmentioned that in its current organization the subsection Rue VII also includes two "alien" but very important functional areas for the entire armament sector: the "military hardware of foreign countries"--better known in international usage as "technical intelligence"--and NBC defense (this field was presented in WEHRTECHNIK in April 1985. New organizational forms are being considered here as well, for both areas are too important to be handled as "also-rans" next to weapons and ammunition--in the future expanded to include guided missiles.

#### KE Ammunition--Continuous Competition With Armor Protection

What other progress has been made besides the chapter on artillery ammunition with which we are already familiar? Traditional ammunition, which will represent the lion's share in procurement in the future as well, offers only a few worthwhile points of departure for new or advanced developments.

The KE ammunition (kinetic energy) for the tank gun remains the most important exception. Here it is worthwhile to make smaller technological advances as well, for economic as well as logistical reasons forbid continuous increases



in caliber in response to the progress in armor protection. Fortunately, new heavy-metal materials offer good starting points here for the decisive improvements. On the other hand, there exist a number of "firing-range targets" jointly defined by the NATO partners that force the ammunition designer to measure his arrow projectiles on a large number of exotic special armors and to continue to optimize. Continuous advance development in constant intense competition with new protective technologies will characterize events here for the foreseeable future.

#### The Shaped Charge--Pronounced Dead Too Hastily

Soldiers have considered the other armor penetration principle, the shaped charge, questionable for several years--more accurately, since the appearance of up-to-date special armors.

As everyone knows, "passive" protective configurations, as they occur in the form of the so-called buckled plate armor in the LEOPARD 2, among other places, bother the classic shaped charge more than the KE projectile. It finally seemed to be all "over" with the shaped charge when the first photos of Israeli tanks with obviously "active" protective configurations appeared in the technical press. This is a protective technology that conservative military people had previously considered to be unusable in the troop.

But in view of the small amount of public information, only the nonspecialist can be tempted to "throw out the baby with the bath water," that is, simply to label the shaped charge as "out-of-date." (At the beginning of the 1970's, many believed that they had to pronounce the little tank dead, in view of the enormous penetration performance of modern precision shaped charges against homogeneous steel armor--likewise an excessively one-sided judgment.)

Today, of course, smaller and possibly medium-sized shaped charges, and especially older types, are largely worthless against such protected targets. But for the larger shaped charge, at least, there are several ways to counter the growing protection. If the ammunition design engineer is not tied to invariable calibers--one is relative free in the case of guided missiles--there is, to begin with, the trivial but effective way of increasing the diameter.

More elegant, to be sure, are approaches that are not immediately oriented toward size and thus toward extra weight. As has already been the case with the KE-ammunition, the science of materials offers new materials here as well; copper, now the usual liner material, can probably be replaced with even more effective materials.

The second elegant way is the combination with preliminary shaped charges, through which active protective configurations are "removed" shortly before the main shaped charge "follows up." Finally, there remains the specific attack against the tank's "soft spots," that is, the "top attack," in which the shaped charge will assert its field of application in guided missiles, artillery ammunition and diverse types of subammunition.



## LOVA--More Than Just a New Catchword

Ammunition is not just the means of achieving an effect against the enemy. Unfortunately it is also a potential danger for one's own weapon system. A hit in the ammunition storage bunker can result in catastrophic secondary explosions with an immediate complete loss. Probably the best-known historical example is the explosion of the British battle cruiser "Hood" on 24 May 1941; but battle tanks are also frequently lost in this way after hits with shaped charges--with no chance of survival for the crew.

One has long sought, therefore, to protect the ammunition and to stow it in less exposed locations. In addition, there are now new efforts to make the ammunition itself less sensitive: low vulnerable ammunition--LOVA--or insensitive munition--IM--are the working terms. That means that detonating agents, propellant charges and explosives should be as invulnerable as possible against hits by small-caliber projectiles and fragments as well as against shaped-charge jets, shock waves and fire--in physical terms: insensitive against shock and heat.

In the case of the explosive charges, one can already see solutions in the form of new plastic explosives that fortunately do not require any reduced performance. An intensive search is also being made for similar first steps for the propellant charges. Finally, one will have to find the corresponding solutions for detonating agents and booster charges so as to reach a balanced protection.

Seen as a whole, this involves a new aspect of ammunition development, the significance of which has so far been recognized only in technical circles but which could very probably soon become a standard requirement for all new ammunition.

## Fresh Wind for Tube Artillery Through "Modular" Propellant Charges?

To understand what modular propellant charges will mean for the tube weapons of the army artillery, one must first take a look at the "classic" propellant charges customary since the "days of yore."

As everyone knows, the range of fire for artillery is not set through the angle of elevation alone but primarily through the choice of the projectile velocity. In the case of the field howitzer 155-1, for example, it is eight steps from 213 meters/second to 827 meters/second that are set in accordance with exterior ballistic criteria. These velocity steps are determined through the quantities of powder, which--precisely weighed out--are contained in combustible propellant bags.

Whereas the smallest and largest velocity steps are realized through special charge types, for middle steps three through seven there is a combined charge structure that permits the selection of the desired projectile velocity through the removal of the corresponding--each different--charge section.

Step four, for example, is produced by removing the charge sections five, six and seven from the propellant charge package by hand and "throwing them away."

The disadvantages of this traditional system are immediately apparent: three different sorts of propellant charges are needed and--since the frequency of use of the smallest and largest charges is not known in advance--one must also carry and ultimately procure substantially more propellant charges than projectiles. The result is not merely more expensive and vexing "waste" (that must be eliminated in an appropriate manner); valuable transport space is also wasted. Secondly, the complicated loading system hardly permits sensible automation. But human manual labor means the misuse of increasingly scarce soldiers, losses of time in rapid fire, and not least a source of errors that can lead to under and overfiring.

The ideal counterconcept is therefore a loading structure with identical elements--modules--than can be put together for the desired charge step. So: step three equals three elements, step six equals six elements, etc. But what must seem logical and simple to the layman is in reality linked with many difficulties in detail: the even ignition of the powder, the reproducibility of the projectile velocity, and above all the finding of a basic powder quantity whose integral multiple leads to velocity steps that are meaningful in exterior ballistic terms.

In Germany, in the meantime, the point has been reached where a fully developed concept for a modular propellant structure can be offered that is also suitable for an automatic portioning and feed to the weapon. Only for the lowest velocity step will a special charge continue to be necessary, for it is not possible to achieve a clean combustion or a reproducible projectile velocity with only one basic module in the relatively large loading chamber.

Naturally such a change in the propellant-charge system also produces a change in the previous firing tables. But because even now fire control hardly works with paper tables and tables of logarithms--the electronic computer has been introduced here as well--this conversion will not produce any problems worth mentioning. Still, this is a reason to consider whether such a system change cannot also be combined with other changes that have long been considered anyway.

As everyone knows, the maximum range of fire of about 24 km now achievable with the standard projectile is not the nonplusultra; the "45-caliber barrel" with an enlarged loading chamber and a range of about 30 km has long been under discussion in artillery circles. Both measures together--a modular propellant charge plus an increase in range--would produce an improvement that could advance tube artillery a step on the weapons side as well.

#### Stagnation in Weapons Development--Only Temporary?

We thus come from the main point ammunition to the subject of weapons technology. One is sometimes asked what kind of noteworthy innovations can occur in the case of the tube weapons besides the actually rather trivial

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extension of a barrel or the umpteenth development of an conventional automatic gun for a market that is already satiated.

As a matter of fact, the classic tube weapons have already been developed to the point where only gradual improvements are possible, essentially in regard to durability and reliability. By themselves, these advances generally are not worth a complete new development, because the user will only accept the disadvantages of a system change if they are compensated by a substantial improvement. (As opposed to the situation with women's outerwear or automobile technology, "new" is not yet a sales argument here). In this respect, the boom in the development of ammunition during the coming years will be opposed by relative stagnation in weapons development.

If one does not view the progress in weapons technology in an isolated manner, but together with new ammunition technology, then in places today there are worthwhile points of departure for new developments. A good example for this is the "Panzerfaust 3," which can be characterized as a successful combination of improved and well-known weapons principles (Davis-gun) and new materials technology (GFK gun tube). Their delivery is possible and also planned after 1988, for one will also be able to face the most up-to-date tanks with its highly developed shaped-charge warhead.

In this sense, an even more attractive new development is the G-11 rifle. In contrast to the infantry weapons of caliber 5.56 mm, which represent merely a reduction of traditional rifles and ammunition, with the G-11 a step was ventured toward a completely new weapon and ammunition system representing a radical change both technically and tactically. Here it is enough to recall the known characteristics simply as key words:

--higher hit probability in the case of triple rounds and sustained fire through a weapon configuration with a recoil capability;

--simple gunner training through the optical sight;

--ruggedness through an encapsulated type of construction;

--larger ammunition supply at the same weight through caseless ammunition;

For this reason, The Bundeswehr does not intend to take the intermediate step of a 5.56 mm caliber but to introduce this new weapon beginning in about 1990.

A corresponding automatic gun, especially as armament for aircraft or armored personnel carriers, could be a further interesting weapon development based upon caseless ammunition. Here valuable basic work has been done by the German-French Institute Saint-Louis (ISL). In this case, to be sure, one is still far from being as far along as in the case of the G-11, both technically as well as with respect to the planned applications by the user.

## Liquid Propellants--The Great Future Hope in the Case of Tube Weapons

The means of propulsion in tube weapons--still termed "powder" as in the days of the black-powder guns--are small geometric bodies (flakes, spheres and tubes) of nitrocellulose, usually with other nitrated fuels. The transition from this in itself highly developed technology to liquid means of propulsion is not simple but promises so many system engineering advantages that many countries are working on it intensively.

Basically, the following come into consideration as liquid propellants:

--so-called monergols (monopropellants), that is, liquids ready for use that contain both the fuel and the oxidator; there are, in turn, chemically pure materials such as, for example, isopropyl and mixtures of fuel and oxidator such as hydrazin/hydrazinnitrate.

--so-called biergols (bipropellants), that is, separately stored oxidators (usually nitric acid or hydrogen peroxide) that do not come together with the fuel until the combustion chamber of the weapon, where they either react immediately as "hypergolic" substances (monomethylhydrazin, for example) or must still be ignited as "nonhypergolic" substances (relatively easily procurable hydrocarbons such as kerosene or octane are also suitable for this).

The possible advantages of these liquid propellants are multiform: in the case of the biergols, they include the lower vulnerability of the weapon system through the separate storage of fuel and oxidator and more possible power per weight and volume or, alternatively, lower combustion temperatures and less wear at the same power-to-weight ratios as in present-day powders.

Dominant in the case of the monergols is the aspect of the simpler weapon design, because only one substance must be supplied; in exchange, however, the achievable power is not quite as great as in the biergols. The vulnerability of the propellant is similar to that of present-day propellant powders ("LOVA" aspect!), but thereby the vulnerability of the weapon system can also be reduced more easily, as the liquid tank can more easily be placed at less exposed locations than handling reasons permit for solid propellant charges.

For this promising technology, extensive model tests with experimental guns of up to 30 mm caliber were carried out by several firms in the FRG; tests were also performed with an experimental 120-mm mortar. As liquid propellants, they thereby investigated different monergols as well as different biergols. So far there is no preference here; both ways were consciously left open.

Again there are two different possibilities for the delivery of the propellant to the combustion chamber: one is the so-called "bulk loading," that is, everything is loaded at once, and then there is a so-called "regenerative" injection method, in which the propellant is delivered by means of a differential piston during the combustion process. Both procedures were investigated in Germany; here the regenerative method is clearly preferred



because of the better control of the course of combustion and the better reproduceability of the projectile velocity.

The field of application for this weapons technology basically includes tube weapons on such carrier vehicles as armored combat vehicles (battle tanks, armored personnel carriers, self-propelled mortars, and self-propelled howitzers) and tube artillery on ships. In this connection, the application in a future self-propelled howitzer appears especially attractive, for one could then regulate the projectile velocity not only in stages as today but in an infinitely variable manner. This is obviously the reason why the United States, Great Britain and France are working primarily in this direction. In Germany, on the other hand, a liquid-propellant gun for a future battle tank is in the foreground of the technological work--for planning reasons. All of the problems involved in making combat-serviceable weapons out of experimental equipment have yet to be solved in any of the named countries; the details are usually most devilish. But from today's point of view, such weapons could certainly be available in the year 2000. Later this technology could be applied in automatic guns--certainly the highest level of difficulty.

#### Electric Guns and Laser Weapons--the Real Future?

Someone who does not build weapons may wonder why traditional gun principles with chemical propulsion are in the foreground even in our projects for the future. Microelectronics is being applied in all subareas of the weapon systems and power electronics promises great advantages for propulsion technology. Only the weapons seem to be still in the way of the total electrification of the battlefield.

Naturally the subsection Rue VII and the Subsection for Military Research (RueFo) are also involved with the electromagnetic gun and the possible applications for laser weapons. In some important subareas, interesting know-how was acquired here that can be shown internationally. In our judgment, however, neither weapons technology will be competitive with traditional weapons for earth applications in the foreseeable future, let alone superior to them.

In the case of the electromagnetic gun in particular, the question is also how its special advantage--the achievement of a projectile velocity almost as high as one wants--could be used. High velocities certainly promise better hit probabilities against moving targets but through the air resistance that rapidly increases with velocity the projectile would be slowed rather quickly in the atmosphere (not so in space!) and the energy would be "roasted away" uselessly as frictional heat. The utility of the high velocity will likewise run into limits in penetrating armor at above 2,300 to 2,500 meters/second. As the so-called Stimp's S-curves show, the greater impact velocity of a KE-projectile no longer leads to an increase in the penetration depth; the greater kinetic energy is merely transformed into an increase in the crater diameter.



Summing up, it can be said that in the firms and institutes the FRG will certainly continue to work on the highly interesting laser technology to a similar or possibly even greater extent than before. In addition, serious consideration is being given to building and operating an electromagnetic gun for experimental purposes primarily in the area of terminal ballistics with high impact velocities. The preferred place for this is the German-French Institute Saint Louis, with which a broad basis was established for technological cooperation with France. A general entrance of these technologies into weapons technology, however, can not yet be discerned and will probably be left for the next generations, if at all.

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MILITARY

NORWAY

GENERAL URGES STRONGER NATO PRESENCE IN NORWEGIAN SEA

Oslo AFTENPOSTEN in Norwegian 22 March 86 p 3

[Op Ed Article by General H.F. Zeiner Gundersen, Retired]

[Text] A debate is at present in progress on the concept of Allied presence in the Norwegian Sea. The debate, for that matter, proceeds along fairly traditional lines. The conflicting main viewpoints seem briefly to be:

Limit the presence of NATO to ensure that the Norwegian Sea and thus the Northern Cap will remain a low-tension area.

Increase the presence of the Allies to ensure that the Norwegian Sea will not become a Soviet inland sea with Norway behind, mark our membership of the Alliance better and, if possible, mark the Allied support function better.

This is the way it has always been. The debaters' points of view and roles are different.

Enormous Sea

The Norwegian Sea may possibly be best defined as the stretch of open sea between Svalbard to the north, Norway to the east, Greenland to the west and Iceland and Scotland to the south. The distances are approximately 900 nautical miles from north to south and approximately 500 nautical miles from east to west. In other words, it is an enormous stretch of open sea. In the Baltic, for example, the corresponding distances are 600 and 60 nautical miles, respectively.

As far as I am concerned, it would seem rather unfortunate, from an objective point of view, if the debate should take such a direction that individual debaters, on account of special professional qualifications, would be deprived of their right to voice their opinion, charged with a lack of common sense or ability to evaluate the political situation. We are all of us interested Norwegians, and none of us have found the panacea for all problems and difficulties.

Welcome

In order right away to show our colors, I have come to the conclusion that there is basis to welcome increased Allied presence in the Norwegian Sea.

I have little confidence in anything but verbal reactions from other countries. But they will probably come. And "You have to stand it." I do not believe in the permanent Allied presence of large naval forces, not least for purely practical reasons.

#### Political/Military

The reason for that standpoint are the following facts, which to me are partly of a political, partly of a military nature.

The borderline between these two, apparently different factors is, incidentally, at the level in question rather vague.

Our country has a geographic location as a result of which we now seem to be located close to the dividing line between the superior security policy interests of the two superpowers. We are located uncomfortably close to what is perhaps the most important military power center of one of the superpowers. This is the superpower whose ideology we do not share. We have no possibility of changing our location, and we do not want to change our ideology.

We shall have to want to take the consequences of these circumstances. It, therefore, seems entirely natural to have a reasonable "balance" in the military presence in the Norwegian Sea in order for it not to become an "inland sea" to one of these superpowers.

#### Warsaw Pact

The main picture of the Warsaw Pact activities in the Norwegian Sea during the last 20 years seems to be:

A sharp increase in the development of bases in the Kola Peninsula (outside, but close to the Norwegian Sea), maritimately as well as militarily in the air.

A sharp increase in the number of warships (surface vessels as well as submarines) based on the Kola Peninsula.

A marked increase in the number of maneuvers, first in the Barents Sea, subsequently in the Norwegian Sea. This applies especially to maritime maneuvers but also to military maneuvers in the air.

That the major maneuvers reach increasingly farther south in the waters and have become increasingly larger and more extensive on the long view.

It makes little difference whether one finds this natural or legitimate. To us in Norway, the main thing is that it is so.

## NATO

As far as NATO activities in the Norwegian Sea are concerned, the main picture, all things considered, seems during the last 20 years to have been:

That the presence of Allied warships and aircraft has been rather sporadic.

That this presence to a large extent has been limited to some major maneuvers, and these in the long view, have not shown any marked increase, neither in their numbers nor in their extent.

That these major maneuvers have not tended to move increasingly to the north, let alone to the east.

That during the entire period since the establishment of NATO, Norway has been an advocate of "the Nordic balance." We have pursued--and are known for having pursued--a deliberate low-tension policy where the key concepts are the base declaration of 1949, the adoption of the nuclear arms resolution of 1961 and our self-imposed limitation of Allied activity to the east of the parallel 24° E.

That the only event of superior significance on the part of the Allies took place in 1979 when our government at the time advocated "advance storage." In my opinion, this reflected concern about the developments in the Norwegian Sea, and that this might result in changes in "the Nordic balance" and result in increased tension in the North areas, and that Norway really needs reinforcements if a disaster takes place, and really has Allies who are prepared to provide such reinforcements. This contributed--in 1979--to creating a better balance and was therefore a very wise decision, without thus having given any viewpoint regarding the storage location.

### Logical Follow-Up

The desire to want Allied presence in the Norwegian Sea seems to be a consequence of the development of the military realities in our immediate environment. But it is not least a logical follow-up of our fixed political line on "the Nordic balance."

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MILITARY

NORWAY

# F-5 FIGHTERS TO RECEIVE NEW ELECTRONIC EQUIPMENT

Oslo AFTENPOSTEN in Norwegian 24 Mar 86 p 5

[Article by Cato Guhnfeldt]

[Text] Air Force fighters of the Northrop F-5 "Freedom Fighter" type will be modernized. A total of 30 one-seat and two-seat fighters will by 1987 undergo a comprehensive modernization process which will make the fighters as useful as possible till the mid-nineties. This takes place at the same time as the fighters this month will have been in Norwegian service for 20 years. An event which last Wednesday was marked with a celebration and the flying over Rygge Air Base of 12 F-5 fighters in the presence, among others, of the leadership of the Air Force and invited guests.

"All fighters of the F-5 type will be provided with radar detector equipment, in addition to tactical air navigation systems, new radios and partly new instruments," says Major Geir Harildstad, chief of the 336 Squadron at Rygge. "This modernization will, in practice, make it possible to use the fighters in the anti-invasion defense of Norway--on a line with the F-16 aircraft. We are, of course, extremely pleased about this because it gives the squadron the feeling of participating in, and of sharing, the defense task," Harildstad says.

The F-5 fighters, which today are used by the 336 Squadron only and are mainly used for training purposes, will be modernized at the Air Force Supply Command at Kjeller. The entire modernization program is a Norwegian solution which was first tested on a two-seat F-5 fighter last summer. Since then, a total of five two-seat fighters have been modernized and, among other things, provided with new typical nose sections containing one of the radar detectors. The remaining eight two-seat fighters of the Air Force will be modernized in the course of this year before the conversion of the one-seat fighters will be started. The entire modernization program is scheduled to be completed by the end of 1987.

In conjunction with the anniversary celebration last Thursday [sic], both the first Norwegian to fly an F-5 fighter in 1964, Colonel Per Ekholt, and Major Odd Sandvik, who is probably the Norwegian who has spent the largest number of flight hours onboard an F-5 fighter, were present at Rygge. "The Freedom Fighter" has, over the years, been a simple but faithful aircraft to the Air



Force, in the role of fighter bomber and day fighter. A total of 108 aircraft were purchased, 24 of which have been disabled or written off by today. A total of six Norwegian squadrons have been equipped with F-5 fighters. If all of the hours that the Norwegian F-5 fighters have spent in the air in the course of these 20 years are added up, it is equivalent to the continual flight of one aircraft for as many as 35 years. If things go as scheduled, the F-5 fighter type will probably remain in Norwegian service for 30 years before being phased out. And no Norwegian military aircraft have previously reached that age in operative service.

7262

CSO: 3639/96

MILITARY

NORWAY

# RESERVES OFFICERS ASSOCIATION PROTESTS DEFENSE FUNDING LEVEL

Oslo AFTENPOSTEN in Norwegian 25 Mar 86 p 3

[Text] The annual real growth rate for the Armed Forces does not enable the Armed Forces to meet the targets on which the Defense Commission of 1974 agreed, the Norwegian Reserves Officers Association writes in a letter to the government. They find that a growth rate of only 3.5 percent will be detrimental both to the Army's field brigades, the Navy and the Air Force.

The Association refers to an alternative proposal on the part of the Defense Chief that aims at maintaining the country's relative defense capability-- Structure 2000, and the Reserves Officers Association states:

The need for resources to build up the Armed Forces with this target in view has for the 15-year period up to the year 2000 been calculated to be equivalent to an annual real growth rate of 7-8 percent during the first 5-year period, 5-6 percent during the second 5-year period and 3-4 percent during the last 5-year period, i.e., an average of 6-7 percent.

On the basis of the insight that we as reserves officers have into the conditions of our society and our economy, into the conditions of our environment and within the Armed Forces, the national congress of the Norwegian Reserves Officers Association has discussed the conditions of the economic framework for our defense up to the year 2000. The national congress has unanimously decided to give its support to the alternative resource framework for the Armed Forces presented by the Defense Chief.

The national congress requests the government to prepare a draft economic program which will enable parliament to provide the Armed Forces with an economic framework that will enable us to maintain our relative defense capability.

In the press, the question has been raised whether it is within the field of responsibility of the Defense Chief to make public statements on the consequences which the granted economic framework will have for the Armed Forces. The national congress wants to point out that it is the clear duty and right of the Defense Chief to give expression to his military technology evaluations in all questions of fundamental importance for the defense of our country, it says in the statement.

7262

CSO: 3639/96

ECONOMIC

BELGIUM

VERHOFSTADT ON BUDGET CUTS, DEFICIT, PRIVATIZATION

Brussels LE SOIR in French 16 Apr 86 p 2

[Interview with Vice Prime Minister Guy Verhofstadt, by Guy Depas and Guy Duplat: "Guy Verhofstadt's Recipe: Do Away with All Our Spending Programs and Promote Private Enterprise"; date and place not given]

[Text] [Question] One gets the impression that 6 months after the elections, the government has not got very far in its work on the budget.

[Answer] We have already decided on the objectives to be met for the 1986 and 1987 budgets. We have already found several tens of billions of francs in savings. The first special powers laws will include a reduction of 25 billion in our spending.

[Question] But let us begin with the objectives. Why was the expected drop in interest rates not taken into account?

[Answer] We must base ourselves on cautious and very realistic conjectures. We adopted the hypothesis that interest rates in 1986 would be around 9 percent, and 8.5 percent in 1987. Granted, these rates seem high...if we succeed in our budget recovery operation. This effort must be implemented first, and only then can we reconsider our estimates of interest rates and draw all the advantages from them.

[Question] Does this preliminary effort really represent nearly 200 billion in net savings?

[Answer] The goal of the operation is to do away with spending programs rather than to reach a magic figure.

[Question] If the Fr 200 billion are not a magic figure, does the goal of reaching 8 percent of the gross national product as our budget deficit by the end of 1987 remain a primary goal?

[Answer] That is another matter. If we realize more than Fr 200 billion in cuts and are able to take advantage of the drop in interest rates, we will do better than this 8 percent which for me is the absolute minimum.

[Question] If the government does not achieve this 8 percent by the end of 1987, will that mean the downfall of Martens-Verhofstadt? (Laughter).

[Question] The preceding government had already set this goal, but failed to reach it.

#### Six Spending Programs

[Question] What are these spending programs which you want to do away with?

[Answer] I will give you some examples based on comparisons with other countries.

1) We are the only country where public investments are completely paid for by the state, without private financing; that must be changed, as we are trying to do with the Anvers Port container terminal and the CANAC air control center.

2) We are the only country in which transfers to businesses are carried out blind in the form of interest subsidies.

3) Of all European countries, we have the highest rates for student training.

4) We are the only country in which one can receive unlimited unemployment benefits; in France and Germany, after 2, 3, or 4 years, one no longer has the right to unemployment benefits, and one comes under a minimum living allowance system.

5) We are the only European country in which restraints on medical consumerism are so ineffectual; everywhere else, they have more substantial franchise and other systems than we have; such a franchise system had already been planned under the preceding government, but could not be put into effect because some wanted to make it a medical tax, which was unacceptable to the PVV [Liberal Party (Flemish)].

6) Studies have shown that of all European countries, we pay the largest subsidies to our postal and railroad services.

#### Science: Private Enterprise

[Question] And besides all that, there are also the national sectors?

[Answer] Indeed, in addition to these spending programs, we must pay what I call the bills. There are four kinds of these: the national sectors (coal mining, iron and steel, naval shipyards etc.), the European budget, training hospitals, and state housing.

[Question] There is talk of an additional bill for Fr 50 billion in 1986?

[Answer] There are no set figures. Beginning today, we will be working on these bills.

[Question] The secretary of state for energy, Aerts, is already asking for Fr 3 billion for coal mining.

[Answer] That's his point of view. We still have to decide whether we will grant further financing to the national sectors, in what amounts, and governed by what constraints (because, on the Walloonian side, there are also financial problems in Tubemeuse and elsewhere). In any case, we have to limit these costs as much as possible.

[Question] Concerned as you are about international comparisons, what will you do in scientific policy? In this area we are very much behind by comparison with our neighbors. And you are said to be ready to cut this budget further and to abandon the Maystadt recovery plan?

[Answer] I have a memorandum ready, which I will soon submit to the ministerial committee for scientific policy. Like the Maystadt plan, it calls for us to reach the level of effort in research of countries such as Sweden, the Netherlands, and Switzerland. But I would like to do this by setting a ceiling to government financing, and giving much greater impetus to the private sector.

#### Government...or Private Contracts?

[Question] Are government contracts another way of stimulating research?

[Answer] I have followed all the discussion on this subject for several months: military contracts, RTT [Telegraph and Telephone Administration] contracts etc. But I get the impression that people are fighting about things that don't even exist, or no longer exist. We will limit our national investments, while seeking alternative financing, in such a way that the problem of government contracts will present itself in a quite different manner.

[Question] Do you want to privatize completely the RTT's contract of a century for more than Fr 100 billion?

[Answer] Everybody says that telecommunications are a very good area of business. The private sector can therefore make it their affair. As a general rule, we should appeal to private financing and then allow it to profit from its investments in consequence. It is more than mere "leasing."

[Question] Is it privatization?

[Answer] No. One can nevertheless talk about privatization if that helps the budget operation.

#### Employers Have Their Say

[Question] During the first round on the budget, what was the most difficult area to negotiate?

[Answer] In my--short--experience, everything. For every spending program, there are interest groups behind it who tell us that it is impossible. We in



the government must together find a coherent policy without being swayed by all these special interests.

[Question] Has Dehaene already approached you?

[Answer] When I speak of special interests, I am thinking only of unions and mutual societies, and also of employers. Our budget operations will shed light on an unemployment problem that until now has been hidden behind the budget deficit. The private sector must make an effort in investment and in creating jobs to help with this further unemployment that we are bringing to light. Taking advantage of the drop in interest rates, the private sector must invest. This effort on its part is necessary for humanitarian and also budgetary reasons.

[Question] Are you willing to apply pressure to make employers adopt this course?

[Answer] There is concerted social pressure right now. It must be possible to reach an agreement. We must show some imagination.

[Question] Dehaene is asking everyone to put everything on the table. Are you willing to do that?

[Answer] Yes...except for respecting the government declaration.

[Question] But it seems that that is precisely what Dehaene has in mind. Including a reevaluation of the ban on raising taxes and special levies.

[Answer] That comes under the government agreement.

[Question] But can one, for example, impose a tax on state subsidies as Dehaene suggests doing?

[Answer] That seems doubtful to me. I agree with the idea of linking subsidies with revenues, but I think it should be possible to do it by reducing subsidies rather than by increasing some taxes.

Long Live the Savings Plan!

[Question] Can we consider finally the particular question of savings allowances? They are disputed on several sides. Do you really insist on them?

[Answer] It's an idea I put forward as party president. Of course I am still in favor of them. They make it possible both to promote venture capital and to help people to put together a pension supplement. The minister of finances favors the idea. He was to make it part of the 1986 and 1987 budgets. If that really is not possible, then at least the Monory-De Clercq bills should be extended.

[Question] But your special allowance account is a new form of spending when the government has said that it would reduce spending!

[Answer] We said we would review unnecessary spending. But--and this is the case here--when it is positive, there is no reason to reject further spending.

ECONOMIC

FEDERAL REPUBLIC OF GERMANY

DIW REPORT SHOWS IMBALANCE OF INNER-GERMAN TRADE

Berlin DIW WOCHENBERICHT in German No 10, 6 Mar 86 pp 119-128

[Article by Horst Lambrecht: "Inner-German Trade: Continuity Required"]

[Text] Inner-German trade increased considerably in 1985, although only onesidedly, in other words, with respect to deliveries from the Federal Republic. This result cannot be viewed in isolation; instead, it must be seen in the context of developments in 1984. At that time there was a big surplus for the GDR, along with a great increase in purchases and a decline in deliveries. The exchange of goods with the GDR is not helped by such extreme developments as we have had them over the past 2 years. It will not be easy to maintain the preceding year's level in 1986. There could be a decline in purchases from the GDR above all because of the decline in mineral oil product prices. Likewise, increased export obligations by the GDR with respect to the Soviet Union and the low dollar exchange rate could also restrict the leeway for sales to the FRG. Shipments by the FRG will also be affected by price drops and it would seem that they will emerge rather emphatically above all in the case of petroleum and fodder. Delivery restrictions could also spring from the fact that Western trading partners feel neglected by the GDR as exporters and demand an increase in purchases by the GDR. If the growth opportunities of inner-German trade are to be assured in the future, then it is important, last but not least, to preserve the sales margins of the GDR with the help of a quota policy that must not be too narrow-minded and to strive equally for structural improvements in the case of deliveries and purchases. It is furthermore indispensable for the GDR to increase its performance capacity in its traditional principal areas within inner-German trade and better to adjust to market conditions in the FRG. The more manifold forms of economic cooperation, which have been added in recent times, should in the future also be expanded much more.

## Onesided Development

The sales volume increase expected in inner-German commodity transactions did materialize in 1985. According to data supplied by the Federal Statistics Bureau, reciprocal commodity deliveries rose by 10 percent to a figure of DM15.5 billion. (Footnote 1) (Cf., "On Inner-German Trade: Results and Prospects," prepared by Horst Lambrecht, WOCHENBERICHT DES DIW [German Institute for Economic Research], No 10, 1985, p 129.) The situation, of course, did develop in an extremely onesided fashion. The expansion was due exclusively to the increase in deliveries (up by 23 percent), while purchases stagnated. Commodity transactions yielded a slight surplus for the FRG. What had been expected was a balance in favor of the GDR which--although by no means on the order of magnitude of 1984--was supposed to have contributed to compensating for the negative service balance sheet in dealing with the FRG.

This result materialized in 1985 obviously because of several influencing factors. Looking at shipments going to the GDR, FRG sales of hard coal at the beginning of the year and increased sales in the capital goods sector contributed to this result, of course also due to the weather. Because of this, monthly delivery records were achieved in August and December 1985. Before that, the monthly maximum shipments came in March 1983 and in December 1982, when the GDR made considerable special steel purchases or large Christmas purchases above all in the case of high-grade essential foods.

Looking at purchases from the GDR, the stagnation was partly due to the market's readiness to accept certain items; but the limitations on delivery capacity also played a role; in some individual cases (for example, in the case of fuel oil), there were also price drops. The limitations, which were due to the supply situation, also were connected with the general major rise in Western trade exports of the GDR at the beginning of the 1980's. It is certainly very difficult for the GDR to maintain this level, not to mention further increasing its exports to the Western countries.

For the year 1985, the financing sector shows few deviations compared to the year before:

The interest-free wing was used even less, in terms of percentages, in 1985 than during the year before (see Table 1). Only DM170 million were used, instead of the possible DM600 million. This happened even though the swing regulation introduced in 1985 no longer required a previously justified need for exercising consideration in terms of negotiating tactics. (Footnote 2) (A swing agreement was entered into with the GDR in August 1985, according to which there was to be an overdraft or swing ceiling of 850 million VE [accounting units] (DM) between 1986 and 1990. It replaced the regulation which was in force from 1983 until 1985 and which involved the gradual reduction of the swing to a figure of DM600 million. The swing agreement, which had been in effect from 1976 until 1982, had already provided for an overdraft ceiling of DM850 million. Before that, the so-called dynamic swing was in effect and it tied the swing credit to the level of the particular deliveries by the other side.)

The relative debt level, that is to say, the ratio between the cumulative asset balance of the FRG and the commodity purchases from the GDR, was 50 percent in 1985, in other words, it was lower than at the beginning of the 1970's and, compared to the rest of Western trade of the GDR, showed an unevenly lower level in spite of the debt consolidation in the GDR.

The GDR made only minor cash payments (DM50 million) in D-Marks via the special S account also in 1985. Making more use of this account would have been in keeping with the trade policy pursued with respect to the FRG in recent times; that policy was designed to demonstrate economic independence, credit solvency, and liquidity. Payments during 1973-1977, at any rate, totalled DM1.29 billion, that is to say, an annual average of more than DM250 million. That happened at a time when the FRG's DM payments--among other things, from investments in Berlin transportation--were not flowing as abundantly as later on. (Footnote 3) (The FRG's DM payments from the federal budget and other public budgets averaged around DM350 million per year for 1971-1975. The ceiling of DM1 billion has been topped since 1979 and after that it was maintained there approximately.)

The swing's decreased economic significance can be detected not only by virtue of its absolute development but also by the degree to which it contributes to the financing of the cumulative balance or in what ratio it is with respect to the performances of the GDR (swing financing share or ratio between swing and purchases). Both of these indexes show that the swing presently no longer carries any significant weight in economic terms (see Table 2).

#### Commodity Structure

Looking at deliveries going to the GDR, the expansion during 1985 covered a series of commodity groups. In the case of products of the raw materials and a producer goods industries, this included, in addition to mining products, above all iron and steel as well as chemical industry products. This production sector continues to predominate with almost 60 percent. There was a disproportionately high rise in the products of the capital goods industry in 1985. This was due to the sale of a passenger vessel at a price tag of DM168 million in August, just as much as it was due to the stepped-up sales of metal-working machines, electrotechnical products, and rail vehicles (freight-cars). Nevertheless, the products of the capital goods industries are still represented here in a rather unsuitably low fashion with a share of less than one-fifth of the total delivery volume. As for consumer goods, there were increased shipments to the GDR in the case of shoes as well as textile and clothing products. The products of the nondurable goods industries altogether account for less than one-tenth of the deliveries. In addition to fodder, which predominates here, GDR purchases increased especially in the gourmet sector (coffee, cocoa and chocolate products, cheese, etc.). There had been an almost 80-percent increase in these products since 1980; in the meantime, they account for almost one quarter of the deliveries made by the agriculture and food sector.

The commodity structure regarding purchases from the GDR remained almost unchanged. Declines in the case of individual goods items (mineral oil products,



chemical industry and furniture industry products) were offset by increased purchases of other products (above all machinery and textiles). The raw materials and producer goods sector continued to dominate with 55 percent and 20 percent, alone, of all commodity purchases from the GDR continue to consist of mineral oil products. Prices and quantities moved in different ways here in 1985. Gasoline and diesel prices went up further while fuel prices went down. The purchase volume for fuel oil and diesel declined while the gasoline purchasing volume remained steady. Products of the capital goods industries as well as of agriculture and the food industry play a comparatively minor role with one-tenth of the total purchasing volume for each of these items. During the second half of the 1960's, agriculture at any rate still held a share of one quarter.

Nondurable goods industry products continue to constitute an important item. This system, which was built up according to the pattern of association with industry branches and under which inner-German trade is shown by the Federal Statistics Bureau, of course does not tell us anything about the purpose for which these goods are used. If we want to get an overview of the scope and structure of products used for consumption, then we need to recode the commodity listing system. A series of products of the capital goods industries will have to be included (for example, electrical household appliances), while some nondurable goods industry products will have to be taken out (for example, yarns and fabrics). (Footnote 4) (For a detailed explanation of the statistical calculation method according to which it was possible to present the results for the first time in this form, please see Doris Cornelsen et al., "Consumer Goods Supply in the GDR and Reciprocal Effects with Respect to Inner-German Trade," BEITRAEGE ZUR STRUKTURFORSCHUNG [Structural Research Contributions], No 87, 1985, pp 265 ff.) The result of this recoding is illustrated in Table 7. As we can see, there are some very definite central points here: outerwear products alone account for one-fifth of all consumer goods purchases from the GDR; if we add woven goods and knitwear, as well as furniture, we already get 50 percent, and if we include electrotechnical consumer goods, the figure goes up to 60 percent.

#### Prices Levelling Off

The increases in world market raw material prices, which were recorded after the first abrupt oil price rise, were also expressed in inner-German commodity transactions. Corrected for certain price factors, the real sales volumes went up 2 percent per year during the 1970's and barely 5 percent during the 1980's. (Footnote 5) (There are no official price statistics for inner-German trade. Only the calculations of the DIW can so far give us some idea as to the way in which prices developed. Many prices can be determined directly from the quantity and value figures contained in the statistics. Both the FRG's export and import price statistics and industrial producer price statistics were used for the others. In both calculations, the weighting was done in each case with the help of the commodity structure applicable to inner-German trade.) On the whole, the rise was less than the price-adjusted increase in the foreign trade volume of the GDR and the FRG. This meant that there was a further decline in the way in which trade between the two German national economies is tied together and that trade tie-in is at a low level



anyway. (Footnote 6) (This also emerges from a purely nominal consideration: in 1970, the share of trade with the FRG (including West Berlin) out of GDR foreign trade came to 10.2 percent whereas in 1984 it was only 8.0 percent. Measured against the FRG's foreign trade volume, inner-German trade in 1970 still accounted for 1.8 percent whereas it was only 1.5 percent in 1984.)

Prices were influenced particularly heavily in 1973 and 1974 and in 1979-1981. (Footnote 7) (Cf. "The GDR's Borrowing from the West Helps Inner-German Trade," WOCHENBERICHT DES DIW, No 10, 1983, p 133.) There were no price rises on the whole in 1985. Prices moved in different ways for individual products and product groups; at the same time, deliveries per balance sheet showed a slight price drop whereas there was a minor price rise for purchases in all commodity groups, taken together. The terms of trade remained generally unchanged in inner-German commodity transactions during the 1980's; during the 1970's, they had changed rather considerably in favor of the GDR.

### Ensure Trade Continuity

The extreme developments during the past 2 years did not fail to raise problems. The GDR's large surplus and the greatly increased purchases of the FRG in 1984 produced a false image of the GDR's performance capacity and the possibility of expanding trade between the two German states. They moreover triggered speculations as to whether certain general conditions are still necessary for this exchange of goods. Deliveries, which had gone up so much in 1985, were liable to generate distrust among the competing Western partner countries when it came to competing with economic relations between the two parts of Germany because those Western partner countries saw that their own export opportunities had been impaired. If there had been greater continuity, such speculations would not have arisen.

This is especially true since, following the 2 years of extreme development, further prospects for this trade are rather uncertain for several reasons. In the case of purchases from the GDR, there could be a decline due to price drops in the case of mineral oil products and due to the way in which the dollar exchange rate develops. Besides, the GDR has higher export obligations toward the Soviet Union in order to reduce the deficits which have piled up here until now. A decline in petroleum product prices within inner-German trade by 25 percent would signify a reduction in total purchases by 5 percent (DM400 million). (Footnote 8) (Here, of course, we must keep in mind that, in addition to the earnings shortfall, the GDR also spends less on its crude oil purchases in the FRG. According to the price level as of the end of February 1986 (petroleum down 35 percent, mineral oil products down 25 percent), this would mean an earnings shortfall of DM150 million for the GDR, using the 1985 quantity figures as basis.) The dollar's rise and fall touch the GDR's delivery opportunities above all in the case of industrial consumer goods. In 1984, when traders from the FRG frequently ordered in the GDR instead of ordering from Asian countries, the GDR profited greatly as a result of the strong dollar. The dollar's decline now works out to its detriment.

Mineral oil products and consumer goods assumes central significance in inner-German trade. Almost half of all purchases consist of these items.

This above all includes those sectors in which the GDR earns its surpluses (see figure 1). In the case of industrial consumer goods, the FRG is the second-most-important market (20 percent export share) for the GDR, after the Soviet Union which has a share of 40 percent out of GDR exports; in this sector, moreover, the FRG is by far the most important partner in trade with the West. It takes more than 60 percent of all consumer goods sold to Western countries. This share is even higher for certain individual commodity groups (textiles, clothing, furniture).

This of course looks different from the FRG's viewpoint: in 1984, for example, only 3.6 percent of the total clothing products imports came from the GDR. In spite of the special status (customs duty exemption, favored treatment in the case of the VAT), which gives the GDR certain advantages in its competition with third countries, this share declined considerably in long-range terms. The GDR had to accept definite losses of position on the West German market as compared to low-price countries outside Europe but also in Europe. The import shares of the GDR and of Yugoslavia of these products were about the same in 1970 whereas Yugoslavia's share was twice as great as that of the GDR in 1984. In 1970, the FRG imported about twice as much in the way of clothing products from the Asian developing countries than from the GDR and in 1984 the figure was nine times higher. In the meantime, more than twice as many clothing products reached the FRG from South Korea, as compared to the GDR and the Hong Kong figure is almost three times that much. In the meantime, the PRC has almost reached the GDR's level.

#### GDR's Sales Margins Preserved

The GDR blames such developments on the West German government's quota policy which inhibits trade. (Footnote 9) (In the past, the GDR frequently raised this problem on a high level, for example, through Political Bureau member Guenter Mittag who is responsible for economic questions. The quota issue however was given general consideration only through the interview which Secretary General Erich Honecker early this year gave to DIE ZEIT, 31 January 1986, pp 3-7. It was reprinted in the party organ NEUES DEUTSCHLAND [New Germany].)

In the FRG, on the other hand, it is argued that the GDR's capacities do not allow any larger purchases. The extent to which purchasing restrictions or capacity limits obstruct greater consumer goods purchases from the GDR could, in the final analysis, be clarified only if the quotas were to be abolished. In view of the line of argument pursued in the FRG, however, the question as to the meaning of quotas is raised to begin with.

Additional barriers were erected in recent years in industrial and commercial sector with the introduction of the so-called guidance magnitudes. These are the West German government's guiding coefficients for purchases from the GDR which are based on values or quantities and which in the meantime have come to affect a by no means inconsiderable trade volume. This is an attempt to limit purchases without instituting any quotas; to that extent, the guidance figures resemble quotas. They were intended as supporting measures with whose help structural problems in the FRG were to be solved. Of course, the idea

also was to prevent the voluminous regulation of this trade to be further accentuated as a result of this in the long run. (Footnote 10) (Contrary to some, also official, announcements, inner-German trade is still regulated very extensively even today on the procurement side. In the agriculture sector, about 90 percent of the purchases are subject to quotas. Among industrial products, commodities in amounts of more than DM400 million are subject to value or quantity quotas. That does not contain mineral oil products. Of course, they are also subject to quotas but that is the only commodity group being discussed with the GDR. These three sectors already make up one-third of all commodity purchases. If we add the guidance magnitudes and the commodities subject to mandatory individual licensing, then just about half of the purchases are currently not regulated in any way.)

A country such as the GDR certainly cannot have the goal to seek its salvation in Western trade primarily in competition with the low-price countries of the Third World, especially since these sales are often more than questionable from general economic profitability viewpoints. In view of its still rather low competitive capacity on the Western markets in the capital goods sector, it must however exploit every possible export opportunity also in the consumer goods sector.

To the extent that purchasing restrictions inhibit trade, an attempt should be made to eliminate those restrictions. To be sure, quotas on a number of items were increased in the industrial sector in 1985 and the same is true of 1986. Besides, a series of reporting numbers were transferred to the open tender procedure. This means that there has been more movement here than during past years. This liberalization would have to be continued more intensively if purchasing reserves are to be tapped.

Certainly, one cannot expect any miracles from a liberal purchasing policy with respect to the GDR and differentiated procedures as regards the quota policy certainly represent the reaction that is most in keeping with the GDR's wishes. No quota increases are to be expected in the agriculture sector as regards certain sensitive items, for example, grain, beef, etc. On the other hand, quota increases or perhaps even the lifting of quotas would appear to be entirely possible with respect to many other relatively minor agricultural items. To open up these purchasing reserves which, taken together, are certainly not insignificant, it would be necessary to start a thorough "house-cleaning of the quota catalog" in this sector. The GDR would then also certainly be ready, for its part, to accommodate the FRG's delivery interests, for example, by placing additional purchasing orders or by making purchases that would relieve the pressure on the market--as in the case of beef, at this time--when it comes to buying food products for the gourmet sector. There is no movement at all at this time when it comes to quotas in the agriculture sector which in earlier times was the main source of expansion in this type of trade, even though the FRG has been achieving surpluses for several years in this sector's delivery-purchasing balance sheet.

A similar equalization of interests would be conceivable in the case of industrial goods. The federal government's quota policy should in any case

be characterized by mobility. Greater publicity on additional GDR delivery wishes and the handling of the quotas would already constitute a gain because they would improve the trading climate, they would invalidate reproaches, and they would make a contribution to a more objective discussion of this issue.

#### Strive for Structural Improvements and More Manifold Forms of Cooperation

First of all, it is certainly correct to preserve the GDR's existing sales margins and again and again to review the purchasing restrictions in terms of their economic necessity. Besides, the GDR however must also increase its performance capacity in the case of the traditional central points and it must do a better job in adjusting to the market conditions in the FRG. In addition to structural improvements due to disproportionately high growth in the case of finished products, the employment of more manifold cooperation forms constitutes an important step toward more complex economic relationships. The examples of production based on licensing and third-country cooperation show that forms of cooperation going beyond pure commodity transactions are just as feasible forms of cooperation as the big projects embarked upon above all in metallurgy and in the chemical industry. (Footnote 11) (The GDR's third-country cooperation effort with firms in the FRG covers about a dozen cases. The projects were intended exclusively for developing countries or were carried out there. Until now, cooperation has been concentrated on the capital goods sector, in contrast to production based on licensing, where the emphasis is on consumer goods.) Production cooperation involving individual firms with the GDR also had a positive effect on inner-German trade. These production cooperation efforts include Salamander. (Footnote 12) (On this subject, see the lecture by Franz Josef Dazert, chairman of the board, Salamander AG [Inc.], who, in the middle of January 1986, reported on "Lessons Learned and Possibilities in Trade with the GDR" to "Handelsverein e.V." [registered association], an organization established to promote trade between both parts of Germany.) It furthermore extends to VW. (Footnote 13) (After the earlier "Golf" business, which related only to the sale of passenger cars, the current production cooperation agreement with the GDR calls for more manifold business relationships. The delivery of an engine assembly line in return for licensing royalties is tied to the return of fuselage motors and the sale of 14,000 VW transport vehicles. Its volume is DM500 million and it is to run until 1993.) Trade with the GDR has become much more manifold in recent years because of all of these business transactions and there are forms of performance exchange now such as they have for a long time been customary between Western countries. This effort should be continued.

This trade could be further promoted also by virtue of the fact that the GDR believes that its economic growth and its foreign trade competition capacity lie mostly in the sector of scientific-technical progress. This, first of all, will increase its requirement for technology imports from Western countries. Besides, it will be important in the GDR to develop domestic research and development results faster and better to the point where they will be ready for practical application. Western innovation and promoter-capital centers, business consultants, and engineering bureaus could certainly offer essential support here. The use of science oriented toward practical applications and the fostering of scientific-technical cooperation moreover



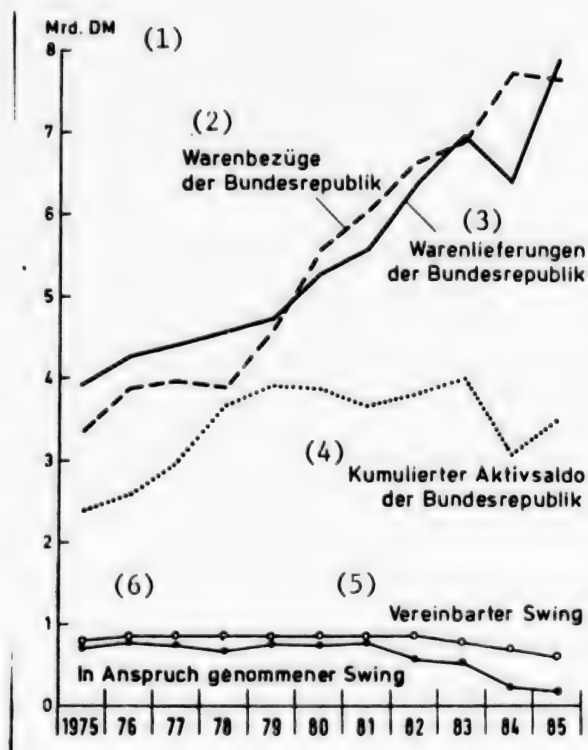
would help promote the hitherto underdeveloped services in economic relations between the two parts of Germany--except for transportation services--and would thus be in keeping with the international trend toward service companies. (Footnote 14) (As was noted elsewhere in this article, there will be chances for future development within inner-German trade also in the field of environmental protection, especially in the Berlin metropolitan area. This could improve environmental conditions, Western systems and Western knowhow could be sold, and high profitability gains could be achieved especially through the conversion of many small and very old GDR enterprises.)

At first, there could be impetuse for inner-German trade above all from increased capital goods deliveries. It would seem that growth-promoting imports will assume greater significance in 1986 after the investment hiatus in the GDR. There is reason to fear a decline on the procurement side and, against this background, a revival of the capital goods business of course presupposes that the GDR no longer handles its consolidation policy in Western trade as severely as it has been doing until now.



# FIGURE APPENDIX

Table 1. Inner-German Trade Indexes



## Key:

- |                               |                                 |
|-------------------------------|---------------------------------|
| 1. Billions of DM             | 4. FRG cumulative asset balance |
| 2. FRG commodity procurements | 5. Agreed-upon swing            |
| 3. FRG commodity deliveries   | 6. Swing used                   |

Sources: Federal Statistics Bureau, Special Series 6, Series 6, BUNDESANZEIGER UND PRESSEMITTEILUNGEN DES BUNDESMINISTERS FÜR WIRTSCHAFT.

Table 2. Inner-German Trade Indexes

(25) Einheit		1970	1975	1980	1981	1982	1983	1984	1985
<b>Warenverkehr<sup>1</sup> (12)</b>									
Bezüge <sup>2</sup> (13)	Mrd. DM	2.00	3.34	5.58	6.05	6.64	6.88	7.74	7.64
Lieferungen <sup>2</sup> (14)	Mrd. DM	2.42	3.92	5.29	5.58	6.38	6.95	6.41	7.90
Umsatz (15)	Mrd. DM	4.41	7.26	10.87	11.63	13.02	13.83	14.15	15.54
Saldo (16)	Mrd. DM	0.42	0.58	-0.29	-0.48	-0.26	0.07	-1.34	0.27
<b>Dienstleistungen<sup>3</sup> (17)</b>									
Bezüge <sup>2</sup> (13)	Mill. DM	148	169	438	486	536	867	752	822
Lieferungen <sup>2</sup> (14)	Mill. DM	266	526	932	1 038	1 138	1 209	1 300	1 272
Umsatz (15)	Mill. DM	414	695	1 370	1 524	1 674	2 076	2 052	2 094
Saldo (16)	Mill. DM	118	357	494	552	602	342	548	450
Kumulierter Aktivsaldo <sup>4, 5</sup> (17a)	Mrd. DM	1.35	2.39	3.87	3.65	3.80	4.10	3.10	3.50
Vereinbarter Swing <sup>6</sup> (18)	Mill. DM	420	790	850	850	850	770	690	600
In Anspruch genommener Swing <sup>7</sup> (19)	Mill. DM	387	711	745	676	582	543	210	170
Zahlungen der DDR über das Sonderkonto „S“ <sup>(20)</sup>	Mill. DM	46	161	12	19	66	73	70	50
Relativer Schuldenstand <sup>8</sup> (21)	vH	68	72	69	60	57	60	40	46
Ausnutzungsgrad des Swing <sup>9</sup> (22)	vH	92	90	88	80	68	71	30	28
Swingfinanzierungsanteil <sup>10</sup> (23)	vH	29	30	19	19	15	13	7	5
Swing-Bezüge-Relation <sup>11</sup> (24)	vH	19	21	13	11	9	8	3	2

Footnotes: 1) According to the data of the Federal Statistics Bureau; for methodological reasons they differ from the federal government statistics published in BUNDESANZEIGER. 2) Of the FRG, including West Berlin. 3) Account III of the Berlin Agreement: procurements [purchases] = passive services = FRG expenditures, including the lump sum for the post office agreed upon with the GDR (1983-1990): DM200 million annually); deliveries = active services = FRG revenues. 4) FRG asset balance, financing balance from commodity transactions according to federal government data, services, and cash payment account (special "S" account) as of 31 December. 5) For 1985: provisional. 6) For 1970, annual average: until 9 May: DM380 million, as of 10 May: DM440 million. 7) Swing actually used up by the GDR on an annual average. 8) Ratio between cumulative asset balance and commodity procurements [purchases] from the GDR. 9) Swing actually used in percent of agreed swing. 10) Ratio between swing actually used and cumulative asset balance. 11) Ratio between swing actually used and commodity procurements from the GDR.

Key:

- |                                |  |
|--------------------------------|--|
| 12. Commodity transactions     | 19. Swing actually used                  |
| 13. Procurements [purchases]   | 20. GDR payments via special "S" account |
| 14. Deliveries                 | 21. Relative debt levels                 |
| 15. Sales volume               | 22. Swing utilization degree             |
| 16. Balance                    | 23. Swing financing share                |
| 17. Services                   | 24. Swing-procurement ratio              |
| 17a. Cumulative active balance | 25. Unit                                 |
| 18. Agreed-upon swing          |  |

Mrd. DM--billions of DM; Mill. DM--millions of DM; vH--percent.

Sources: Federal Statistics Bureau: "Commodity Transactions with the German Democratic Republic and East Berlin," Special Series 6, Series 6; (annual issues and December 1985), BUNDESANZEIGER; data supplied by Federal Ministry for Economics; DIW calculations.

Table 3. FRG (Footnote 1) Deliveries in Inner-German Trade by Commodity Groups

(9) Erzeugnisgruppen bzw. Erzeugnisse	(10) 1984 1985 (12) in Mill. DM	Veränderungen gegen- über dem Vorjahr	(11) Struktur	
			1984 (13) in vH	1985
Erzeugnisse der Grundstoff- und Produktionsgüterindustrien <sup>2</sup> (14)	3 828	4 604	776	20,3 59,8 58,3
darunter: (15)				
Bergbauliche Erzeugnisse (16)	717	1 122	404	56,4 11,2 14,2
Steinkohle und Koks (17)	28	384	356	1 252,9 0,4 4,9
Erdöl, roh (18)	660	706	46	6,9 10,3 8,9
Eisen und Stahl <sup>3</sup> (19)	817	935	118	14,4 12,8 11,8
Erzeugnisse der Hochofenwerke (20)	606	625	19	3,2 9,5 7,9
NE-Metalle <sup>4</sup> (21)	694	736	43	6,1 10,8 9,3
Silber (22)	341	302	- 39	- 11,5 5,3 3,8
Chemische Erzeugnisse <sup>5</sup> (23)	1 436	1 547	112	7,8 22,4 19,6
Anorganische Grundstoffe etc. (24)	205	243	38	18,3 3,2 3,1
Organische Grundstoffe und Chemikalien (25)	587	624	37	6,3 9,2 7,9
Kunststoffe und Kunststoffserzeugnisse <sup>6</sup> (26)	224	278	55	24,6 3,5 3,5
Erzeugnisse der Investitionsgüterindustrien (27)	1 027	1 476	450	43,8 16,0 18,7
darunter: (15)				
Schienenfahrzeuge (28)	55	153	95	273,7 0,9 1,9
Maschinenbauerzeugnisse (29)	635	697	62	9,7 9,9 8,8
Metallbearbeitende und Prüfmaschinen (30)	117	229	112	95,3 1,8 2,9
Papier-, Textil- und Nähmaschinen (31)	148	178	30	20,6 2,3 2,3
Wasserfahrzeuge (32)	0	168	168	0,0 2,1
Elektrotechnische Erzeugnisse (33)	142	237	96	67,5 2,2 3,0
Erzeugnisse der Verbrauchsgüterindustrien (34)	480	692	213	44,4 7,5 8,8
darunter: (15)				
Textilien (35)	247	301	54	21,8 3,9 3,8
Leder, Lederwaren und Schuhe (36)	101	178	77	76,1 1,6 2,3
Erzeugnisse der Landwirtschaft <sup>7</sup> und der Nahrungs- und Genußmittelindustrien (37)	989	1 047	58	5,8 15,5 13,3
darunter: (15)				
Rohe Öle (38)	168	199	31	18,4 2,6 2,5
Ölkuchen und Schrote (39)	456	407	- 49	- 10,8 7,1 5,1
Kaffee (40)	59	79	20	34,7 0,9 1,0
Alle Erzeugnisse <sup>8</sup> (41)	6 403	7 903	1 500	23,4 100,0 100,0

Deviations in sums are due to the rounding of numbers.

Footnotes: 1) Including West Berlin. 2) Including mining products. 3) Including foundry products as well as products of the steel-drawing plants, cold-rolling mills, and steel shaping. 4) Including their semifinished products. 5) Including plastic products and rubber goods. 6) Including synthetic rubber. 7) Including hunting, forestry, and fishing. 8) Including commodities not matched up with groups.

Key:

- |   |   |
|---|---|
| 9. Product groups or products                                   | 27. Products of the capital goods industries                                      |
| 10. Changes compared to preceding year                          | 28. Rail vehicles   |
| 11. Structure   | 29. Machine-building products   |
| 12. Millions of DM  | 30. Metal-working and testing machines  |
| 13. Percent   | 31. Paper, textile, and sewing machines   |
| 14. Products of the raw materials and producer goods industries | 32. Water vehicles  |
| 15. Including   | 33. Electrotechnical products   |
| 16. Mining products   | 34. Products of the nondurable goods industries                                   |
| 17. Hard coal and coke  | 35. Textiles  |
| 18. Petroleum, crude  | 36. Leather, leather goods, and shoes   |
| 19. Iron and steel  | 37. Products of agriculture and of the essential and nonessential food industries |
| 20. Blast furnace products                                      | 38. Crude oils  |
| 21. Nonferrous metals   | 39. Oil cake and waste  |
| 22. Silver  | 40. Coffee  |
| 23. Chemical products   | 41. All products  |
| 24. Inorganic raw materials, etc.                               |   |
| 25. Organic raw materials and chemicals                         |   |
| 26. Synthetics and synthetic products                           |   |

Sources: Federal Statistics Bureau, "Commodity Transactions with the German Democratic Republic and East Berlin," Special Series 6, Series 6 (1984 annual issue and December 1985 monthly issue).



Table 4. FRG (Footnote 1) Procurements in Inner-German Trade by Commodity Groups

(12) Erzeugnisgruppen bzw. Erzeugnisse		1984 (15)	1985 in Mill. DM	(13) Veränderung gegen- über dem Vorjahr	(14) Struktur 1984 (16) in vH	1985	
Erzeugnisse der Grundstoff- und Produktionsgüterindustrien <sup>2</sup>	(16a)	4 304	4 225	- 79	- 1,8	55,7	55,3
darunter:	(16b)						
Motorenbenzin	(16c) (17)	273	284	10	3,7	3,5	3,7
Dieselkraftstoff und Heizöl	(18)	1 309	1 267	- 42	- 3,2	17,0	16,6
Eisen und Stahl <sup>3</sup>	(19)	495	568	73	14,7	6,4	7,4
NE-Metalle <sup>4</sup>	(20)	424	407	- 16	- 3,9	5,5	5,3
Chemische Erzeugnisse <sup>5</sup>	(21)	1 053	1 007	- 46	- 4,4	13,6	13,2
Anorganische Grundstoffe etc.	(22)	133	110	- 23	- 17,1	1,7	1,4
Organische Grundstoffe und Chemikalien	(23)	244	247	4	1,6	3,2	3,2
Kunststoffe und Kunststoffserzeugnisse <sup>6</sup>	(24)	344	318	- 27	- 7,7	4,5	4,2
Erzeugnisse der Investitionsgüterindustrien	(16b)	840	847	7	0,8	10,9	11,1
darunter:							
Maschinenbauerzeugnisse	(25)	191	220	30	15,6	2,5	2,9
Elektrotechnische Erzeugnisse	(26)	337	323	- 14	- 4,1	4,4	4,2
Eisen-, Blech- und Metallwaren	(27)	150	147	- 3	- 1,9	1,9	1,9
Erzeugnisse der Verbrauchsgüterindustrien	(28)	1 812	1 806	- 7	- 0,4	23,4	23,7
darunter:	(16b)						
Glas und Glaswaren	(29)	110	108	- 2	- 1,5	1,4	1,4
Holzwaren	(30)	364	339	- 24	- 6,6	4,7	4,5
Möbel	(31)	291	258	- 33	- 11,5	3,8	3,4
Textilien	(32)	519	551	33	6,3	6,7	7,2
Heim- und Haustextilien	(33)	148	160	12	7,8	1,9	2,1
Wirk- und Strickwaren	(34)	229	244	14	6,2	3,0	3,2
Bekleidung	(35)	506	496	- 9	- 1,8	6,5	6,5
Oberbekleidung <sup>7</sup>	(36)	309	289	- 20	- 6,3	4,0	3,8
Erzeugnisse der Landwirtschaft <sup>8</sup> und der Nahrungs- und Genußmittelindustrien	(37)	742	727	- 15	- 2,0	9,6	9,5
darunter:	(16b)						
Getreide	(38)	179	162	- 17	- 9,7	2,3	2,1
Schlachtvieh <sup>9</sup>	(39)	251	259	8	3,2	3,3	3,4
Zucker und Süßwaren <sup>10</sup>	(40)	106	114	8	7,8	1,4	1,5
Alle Erzeugnisse <sup>11</sup>	(41)	7 732	7 636	- 97	- 1,3	100,0	100,0

Deviations in sums due to rounding of numbers.

Footnotes: 1) Including West Berlin. 2) Including mining products. 3) Including foundry products as well as products of the steel-drawing plants, cold-rolling mills, and steel shaping. 4) Including their semifinished products. 5) Including plastic products and rubber goods. 6) Including synthetic rubber. 7) Including refined pelts and furs. 8) Including hunting, forestry, and fishing. 9) Including fresh pork. 10) Including processed fruit. 11) Including commodities not matched up with categories.

Key:

- |  |  |
|--|--|
| 12. Product groups or products                                   | 26. Electrotechnical products  |
| 13. Changes compared to preceding year                           | 27. Hardware, tinware, and metalware   |
| 14. Structure  | 28. Products of the nondurable goods industries                                |
| 15. Millions of DM   | 29. Glass and glassware  |
| 16. Percent  | 30. Wooden goods   |
| 16a. Products of the raw materials and producer goods industries | 31. Furniture  |
| 16b. Including   | 32. Textiles   |
| 16c. Engine gasoline   | 33. Home and household textiles  |
| 17. Diesel fuel and fuel oil                                     | 34. Woven goods and knitwear   |
| 18. Iron and steel   | 35. Clothing   |
| 19. Nonferrous metals  | 36. Outerwear  |
| 20. Chemical products  | 37. Products of agriculture and the essential and nonessential food industries |
| 21. Inorganic raw materials, etc.                                | 38. Grain  |
| 22. Organic raw materials and chemicals                          | 39. Slaughter animals  |
| 23. Synthetics and synthetic products                            | 40. Sugar and confectionery articles   |
| 24. Products of the capital goods industries                     | 41. All products   |
| 25. Machine-building products                                    |  |

Sources: Federal Statistics Bureau, "Commodity Transactions with the German Democratic Republic and East Berlin," Special Series 6, Series 6 (1984 annual issue and December 1985 monthly issue).

Table 5. FRG Consumer Goods (Footnote 1) Procurements in Inner-German Trade

(3) Meldenummer/Warengruppe <sup>2</sup>		1980	1981	1982	1983	1984	1980	1984
		(4) in Mill. DM					(5) in vH	
Konsumgüter insgesamt	(6)	1 096	1 144	1 382	1 488	1 682	100,0	100,0
darunter:	(7)							
64 Bekleidung	(8)	336	304	404	440	506	30,7	30,1
641 Oberbekleidung	(9)	203	197	261	285	309	18,5	18,4
63 Textilien	(10)	229	238	293	307	346	20,9	20,6
639 Wirk- und Strickwaren	(11)	186	185	218	215	229	17,0	13,6
638 Heim- und taustextilien	(12)	27	36	48	63	79	2,5	4,7
54 Holzwaren	(13)	217	248	279	290	329	19,8	19,6
542 Möbel u.a.	(14)	184	214	237	245	280	16,8	16,7
36 Elektrotechnische Erzeugnisse	(15)	71	81	106	125	149	6,5	8,9
363 Elektrische Geräte für Gewerbe und Haushalt	(16)	34	41	60	71	71	3,1	4,2
366 Rundfunk-, Fernseh-, Phono-technische Geräte und Einrichtungen	(17)	21	22	26	32	46	1,9	2,7
364 Elektrische Leuchten und Lampen	(18)	16	17	19	22	32	1,5	1,9
39 Musikinstrumente, Spiel- und Sportwaren	(19)	53	59	69	74	81	4,8	4,8
393 Spielwaren, Christbaumschmuck	(20)	24	28	34	39	48	2,2	2,9
51 Feinkeramische Erzeugnisse	(21)	52	55	59	59	60	4,7	3,6
62 Lederwaren und Schuhe	(22)	38	44	50	54	60	3,5	3,6
38 Eisen-, Blech-, Metallwaren	(23)	29	28	31	34	41	2,7	2,4
37 Feinmechanische und optische Erzeugnisse, Uhren	(24)	18	24	26	26	20	1,6	1,2
57 Druckereierzeugnisse	(25)	20	21	24	27	25	1,8	1,5

Footnotes: 1) According to the "Classification by Broad Economic Categories" (BEC), published by the UN Statistics Bureau, which categorizes the data of the International Commodity List for Foreign Trade (SITC II) according to the purpose for which the goods are used. 2) According to the Systematic Goods List for the Production Statistics of the FRG, 1982 addition; publisher: Federal Statistics Bureau.

Key:

- |                                      |   |
|--------------------------------------|---|
| 3. Reporting number, commodity group | 16. Electrical household appliances for industry and home |
| 4. Millions of DM                    | 17. Radio, television, sound equipment and installations  |
| 5. Percent                           | 18. Electrical lights and lamps                           |
| 6. Consumer goods, total             | 19. Musical instruments, toys, and sporting goods         |
| 7. Including                         | 20. Toys, Christmas tree decorations                      |
| 8. Clothing                          | 21. Precision-ceramics products                           |
| 9. Outerwear                         | 22. Leather goods and shoes                               |
| 10. Textiles                         | 23. Hardware, tinware, metalware                          |
| 11. Woven goods and knitwear         | 24. Precision-mechanics and optics products, watches      |
| 12. Home and household textiles      | 25. Printing plant products                               |
| 13. Wooden articles                  |   |
| 14. Furniture, etc.                  |   |
| 15. Electrotechnical products        |   |

Sources: Federal Statistics Bureau, Special Series 6, Series 6; DIW calculations.

Table 6. Development of Prices in Inner-German Trade

		1981	1982	1983	1984	1985
<b>(4) Veränderung gegenüber dem Vorjahr in vH</b>		<b>(3) 1) Preisentwicklung für den Gesamthandel und Terms of Trade</b>				
Lieferungen <sup>1</sup>	(5)	8,1	1,9	1,1	4,4	-2,0
Bezüge <sup>1</sup>	(6)	10,0	-0,5	-2,3	4,9	1,5
Terms of Trade <sup>1, 2</sup>		-1,7	2,5	3,5	-0,5	-3,5
<b>Index (1970 = 100)</b>						
Lieferungen <sup>1</sup>	(5)	180	184	186	194	190
Bezüge <sup>1</sup>	(6)	256	255	249	261	265
Terms of Trade <sup>1, 2</sup>		71	72	75	74	72
		<b>(7) 2) Preisentwicklung nach Warengruppen</b>				
<b>Index der Lieferungen<sup>1</sup> (1970 = 100)</b>		<b>(8)</b>				
<b>Erzeugnisse der</b>		<b>(9)</b>				
Grundstoff- und Produktionsgüterindustrien	(10)	183	185	186	191	188
Investitionsgüterindustrien	(11)	188	199	204	200	207
Verbrauchsgüterindustrien	(12)	150	155	150	157	155
Landwirtschaft und der Ernährungsgüterindustrien	(13)	176	169	174	203	181
<b>Index der Bezüge<sup>1</sup> (1970 = 100)</b>		<b>(14)</b>				
<b>Erzeugnisse der</b>		<b>(9)</b>				
Grundstoff- und Produktionsgüterindustrien	(10)	372	364	350	373	382
Investitionsgüterindustrien	(11)	145	150	154	155	158
Verbrauchsgüterindustrien	(12)	173	175	172	178	182
Landwirtschaft und der Ernährungsgüterindustrien	(13)	151	152	151	157	147

Footnotes: 1) Of the FRG, including West Berlin. 2) Prices of deliveries going to the GDR: prices of procurements from the GDR x 100.

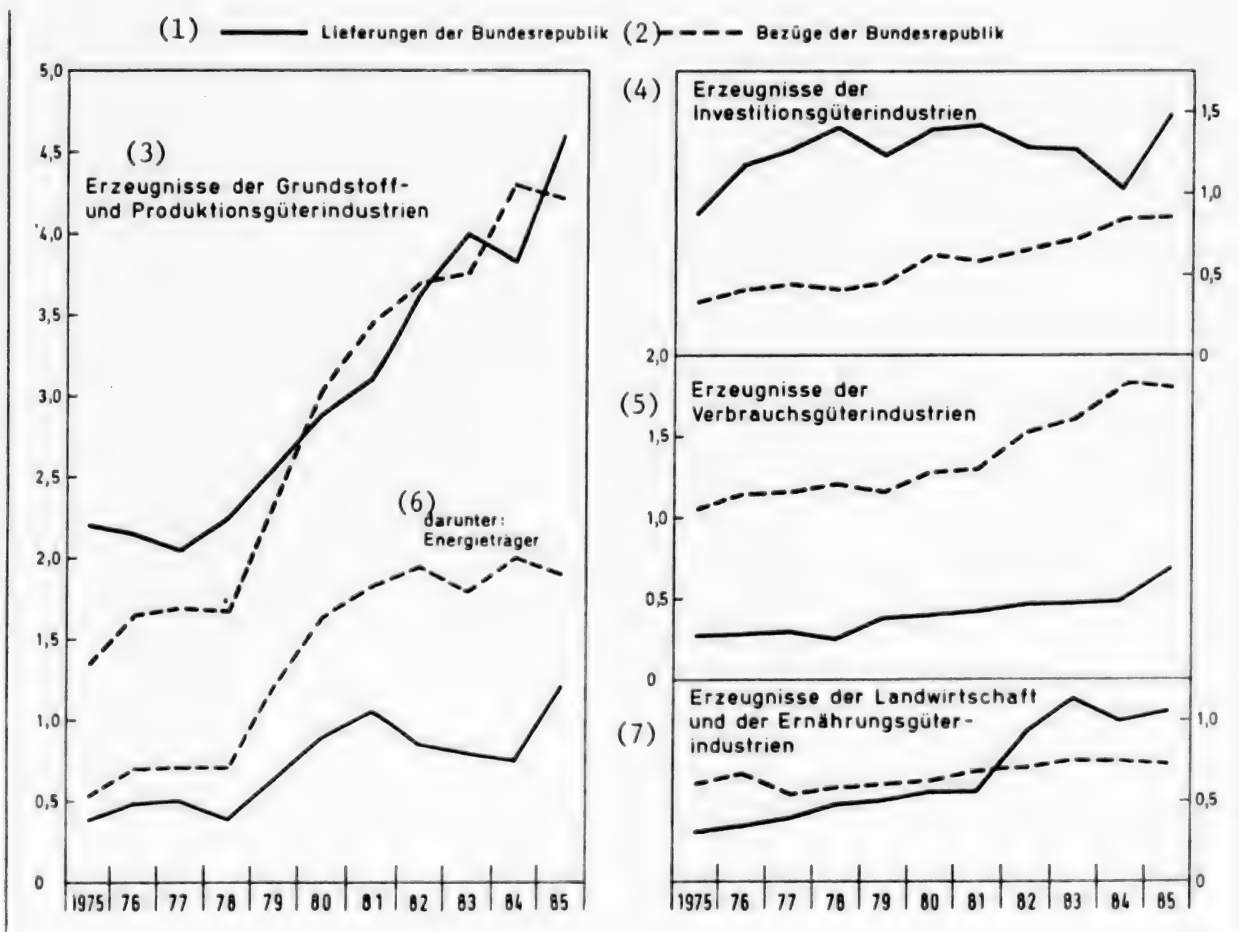


Key:

- |  |   |
|--|---|
| 3. Development of prices for trade as a whole and terms of trade | 9. Products of                                  |
| 4. Changes compared to preceding year in percent                 | 10. Raw materials and producer goods industries |
| 5. Deliveries  | 11. Capital goods industries                    |
| 6. Procurements [purchases]                                      | 12. Nondurable goods industries                 |
| 7. Development of prices by commodity groups                     | 13. Agriculture and essential food industries   |
| 8. Index of deliveries   | 14. Index of procurements [purchases]           |

Sources: Calculations of the DIW according to data in: Federal Statistics Bureau, "Commodity Transactions with the German Democratic Republic and East Berlin," Special Series 6, Series 6 (annual issues and monthly issues, 1985); "Prices and Price Indexes for Imports and Exports," Special Series 17, Series 8; "Prices and Price Indexes for Industrial Products (Producer Prices)," Special Series 17, Series 2.

Figure 1. Inner-German Commodity Transactions by Main Product Groups in Billions of DM



Key:

- |  |  |
|--|--|
| 1. FRG deliveries  | 5. Products of the nondurable goods industries               |
| 2. FRG procurements  | 6. Including: energy sources                                 |
| 3. Products of the raw materials and producer goods industries | 7. Products of agriculture and the essential food industries |
| 4. Products of the capital goods industries                    |  |

Source: DIW according to data from the Federal Statistics Bureau.

Table 7. FRG Clothing Product Imports (Footnote 1)

Land/ Ländergruppe (4)	(5)	Importe in Mill DM		(6) Anteile in vH	
		1970	1984	1970	1984
Insgesamt <sup>2</sup> (7)		2 414	13 918	100,0	100,0
EG-Länder (9) (8)		1 261	4 188	52,2	30,1
darunter: (9)					
Italien (10)		377	1 835	15,6	13,2
Griechenland (11)		91	922	3,8	6,6
Frankreich (12)		272	515	11,3	3,7
Belgien-Luxemburg (13)		236	323	9,8	2,3
Niederlande (14)		213	291	8,8	2,1
Andere OECD-Länder (15)		329	2 077	13,6	14,9
darunter: Türkei (16)		2	709	0,1	5,1
Sozialistische Länder <sup>3</sup> (17)		138	1 085	5,7	7,8
Jugoslawien (18)		167	1 092	6,9	7,8
DDR (innerdeutscher Handel) (19)		152	506	6,3	3,6
Asiatische Entwicklungsländer (9) (20)		343	4 388	14,2	31,5
darunter:					
Hongkong (21)		249	1 587	10,3	11,4
Süd-Korea (22)		10	979	0,4	7,0
VR China (22)		8	453	0,3	3,3
Taiwan		17	356	0,7	2,6
Afrikanische und südamerika- nische Entwicklungsländer (23)		24	582	1,0	4,2

Footnotes: 1) Commodity Group 64 of the Systematic Goods List for the Production Statistics of the FRG. 2) FRG imports plus inner-German trade. 3) Excluding Yugoslavia and the GDR (inner-German trade).

Key:

- |                              |   |
|------------------------------|---|
| 4. Country, country groups   | 15. Other OECD countries                            |
| 5. Imports in millions of DM | 16. Including Turkey                                |
| 6. Shares in percent         | 17. Socialist countries                             |
| 7. Total                     | 18. Yugoslavia                                      |
| 8. EC countries (nine)       | 19. GDR (inner-German trade)                        |
| 9. Including                 | 20. Asian developing countries                      |
| 10. Italy                    | 21. South Korea                                     |
| 11. Greece                   | 22. PRC   |
| 12. France                   | 23. African and South American developing countries |
| 13. Belgium-Luxembourg       |   |
| 14. Netherlands              |   |

Sources: Federal Statistics Bureau, Special Series 7, Series 7, and Special Series 6, Series 6.

Table 8. Structure of Inner-German Trade According to Foreign Trade System Shares in Percent

Warengruppe (3)		1975	1980	1983	1984
	(4)				
	Lieferungen der Bundesrepublik <sup>1</sup>				
Ernährungswirtschaft <sup>2</sup>	(5)	8	10	15	15
Rohstoffe	(6)	8	12	12	12
Halbwaren	(7)	20	18	19	20
Fertigwaren-Vorerzeugnisse	(8)	25	21	27	26
Fertigwaren-Enderzeugnisse	(9)	31	32	22	20
Fertigwaren insgesamt	(10)	56	53	49	46
Nicht zugeordnete Waren	(11)	8	7	5	7
	(12)	Bezüge der Bundesrepublik <sup>1</sup>			
Ernährungswirtschaft <sup>2</sup>	(5)	17	11	10	9
Rohstoffe	(6)	6	4	5	4
Halbwaren	(7)	22	35	33	34
Fertigwaren-Vorerzeugnisse	(8)	17	17	18	18
Fertigwaren-Enderzeugnisse	(9)	36	31	32	32
Fertigwaren insgesamt	(10)	53	48	50	50
Nicht zugeordnete Waren	(11)	2	2	2	3

Footnotes: 1) Including West Berlin. 2) Live animals, foodstuffs of animal origin, foodstuffs of vegetable origin, nonessential foods.

Key:

- |  |  |
|--|--|
| 3. Commodity group                             | 9. Final products for finished products    |
| 4. FRG deliveries                              | 10. Finished products, total               |
| 5. Essential food industry                     | 11. Commodities not matched up with groups |
| 6. Raw materials                               | 12. FRG procurements                       |
| 7. Semifinished goods                          |  |
| 8. Semifinished products for finished products |  |

Sources: Federal Bureau for the Manufacturing Trades, Frankfurt/Eschborn, prepared according to data supplied by the Wiesbaden Federal Statistics Bureau.

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ECONOMIC

FEDERAL REPUBLIC OF GERMANY

DIW OUTLINES 1985-1986 ECONOMIC DEVELOPMENT IN BERLIN

West Berlin DIW WOCHENBERICHT in German No 11-12, 20 Mar 86 pp 137-143

[Article by Kurt Geppert and Peter Ring: "Outline of Economic Development in West Berlin, 1985-86"]

[Text] Large Number of New Jobs

The performance of the Berlin economy increased in the past year just as strongly as in 1984: Price-adjusted gross domestic product (without excises) rose--according to preliminary estimates--by three percent. The rate of growth was thus once again approximately a half a percentage point higher than in the overall national economy.

The expansion of production brought with it a considerable increase in employment. An average of 859,000 persons were gainfully employed in Berlin in 1985 (Footnote 1) (According to the native concept, that is, including those employed by foreign agencies and the Allied armed forces, the number of gainfully employed amounted to approximately 872,000), which is about 14,000 or 16 percent more than in 1984. The employment figure for the FRG increased by 0.8 percent during the same period.

The clearly above-average rise in employment in Berlin is the result of the comparatively favorable developments in the city's goods-producing sector: In the manufacturing industries, the number of employed persons rose more sharply, while it decreased more slightly in construction than in the FRG. The number of jobs in the tertiary sector--trade, transport, private and public services--was expanded to approximately the same extent as in the overall national economy.

However, the increase in jobs resulted not only from economic growth; to a considerable extent it was caused by the reduction in average work hours. This decline was in turn a result of the collective wage agreement calling for a reduction of work hours in large parts of manufacturing. On the other hand, part-time work continued to gain in significance, especially among private and public services. Well above one-third of the approximately 9,500 additional jobs in these two sectors of the Berlin economy were part-time jobs. The

number of men working part-time rose at approximately double the rate of that of women compared to last year. At about 15 percent in 1985, the share of part-time male workers in the service sector was still small; for many years, however, the clear trend has been one of growth.

#### Heightened Immigration from the Other Areas of the FRG

As a result of the growing demand of Berlin's economy for workers, the immigration of people at an employable age from the other areas of the FRG increased sharply in 1985. With 29,000 persons, the 1984 figure was exceeded by more than half.

It is true that official statistics in Berlin do not make distinctions according to motivations for moving or the socioeconomic characteristics of immigrants; thus, the question of how many of those who moved to Berlin took jobs cannot be answered precisely. However, the most recent developments can scarcely be explained in any other way than through a considerable increase in the number of immigrated workers. This is also revealed by considerations of the regional labor market. Although considerably more jobs were made available, it was not possible to noticeably reduce unemployment; the number of those unemployed has since 1983 remained at slightly more than 80,000. Even when one considers that the local supply of workers is still on the rise, it can be assumed that a large part of the demand for workers has been covered by immigration.

It is striking that the number of newcomer skilled workers, who are financially supported in accordance with the Labor Aid Act and are thus statistically recorded, scarcely rose in 1985, and at 4,600 was only about half as high as it was at the beginning of the decade. Since mobility assistance has been granted only to workers with those qualifications not available in Berlin, the largest part of the newcomers must have vocational capabilities that can already be found on the local labor market.

Viewed on the whole, the influx of workers from the FRG has contributed to the fact that in 1985, for the first time in many years, Berlin achieved an increase in the number of immigrated Germans--an estimated 22,000 persons--that was clearly higher than the excess mortality rate among this population group (18,000 persons).

#### Steadily Healthy Expansion in Industrial Production

Production in manufacturing in Berlin continued to rise sharply last year. The index of net production rose by 8 percent compared to 1984--a rate of growth that was considerably higher than that in the FRG (+ 5.7 percent).

Industry in Berlin was given strong momentum from demand abroad, especially from European and Asian countries. Areas of business with low export ratios achieved greater success in sales; Berlin's food industry, for example, increased its deliveries abroad by about 60 percent in 1985.

The city's manufacturing industries apparently profited from the high rate of the dollar less than did German industry on the whole; at any rate, direct

exports to North America scarcely increased. Additional demand in the United States for German products was concentrated on automobiles, a product that is of comparatively small significance to industry in Berlin.

The electronics industry, which is by far the largest branch of Berlin's manufacturing industries, was able to increase its domestic sales in particular last year. The consolidation and modernization of the communications infrastructure in the FRG is resulting in a considerable stimulation of demand for Berlin's electronics industry; the production of telephones and telecommunications equipment rose sharply in 1985.

Of increasing importance to the development of production in Berlin industry is the production of electronic data processing equipment; in 1985 it was expanded by nearly half. However, the companies of this branch in Berlin are not producing computers, but rather data processing components such as disk memory and diskettes in particular. It is true that this involves modern products in a strongly growing market; however, the effects of this production on unemployment are--at least measured against the rise in output--small since the products are produced using extremely capital-intensive processes. Average sales per worker in the production of data processing equipment was around DM 1.4 million in Berlin in 1985, while this figure was not even half as much as in the FRG. Subsidies within the framework of assistance to Berlin could play a significant role in the expansion of production capacity in this branch of industry in Berlin.

In the course of the strong growth in industrial production, new jobs are being created in considerable scope. The number of persons employed in the city's manufacturing industries in 1985 amounted to an average of 162,600--approximately 5,000 or 3.2 percent more than the year before. With this rate of growth in industrial employment, Berlin was not only well above the national average (+ 1.4 percent), but also clearly higher than the heavy-growth southern German Bundeslaender (+ 2.2 percent). (Footnote 2) (Hesse, Bavaria and Baden-Wuerttemberg)

The manpower structure developed less favorably than their sheer numbers. The primary increase was in the number of blue-collar workers, while the number of white-collar workers increased only a little more sharply than in the national average, and was clearly at a slower rate than in the southern German Laender. The number of unskilled workers in the area of production apparently increased considerably. It can at least be said that the percentage of blue-collar workers who had not completed professional training increased here last year while the same figure fell in the the rest of the FRG. (Footnote 3) (Information on manpower structure is thus far only available for the first half of 1985.)

Demand for products by Berlin industry will probably continue to increase in 1986. The decline in incoming orders around the end of last year should not be interpreted as the beginning of a long decline. A positive sign of this is the fact that a continuation of forward economic development can be counted on for the entire FRG. There will be especially sharp increases there in expenditures on durable equipment. This may result in a considerable amount of additional orders for Berlin industry. Thus, it is to be expected that the

shift in emphasis from production and employment in favor of capital goods industries will continue.

On the whole, the number of jobs in Berlin's manufacturing industries will continue to increase this year. However, the rise in employment will probably be weaker than in 1985. On the yearly average, about 166,000 workers will be active in industry, a good 3,000 or 2 percent more than in 1985.

#### Internal Demand in the City

##### Above Average Price Increase Dampens Private Consumption

Spending by private households in Berlin rose in 1985 by a good 4.5 percent, thus considerably more rapidly than in the entire FRG (3.7 percent). The comparatively strong expansion in consumer spending was probably possible primarily because the number of employed persons in the regional economy was increased at double the rate than in the FRG on the average.

However, there is a fundamental change in the favorable picture when price developments are taken into consideration: In Berlin the cost of living in 1985 was 3.4 percent higher than in the preceding year, while the price increase in the entire FRG came to only 2.1 percent. Prices in the city rose at an above average rate for nearly all spending categories; however, the decisive factor here was the discrepancy in developments in rent on housing, which at 7.7 percent rose here at more than double the rate that it did in the FRG (+ 3.3 percent).

Supposing that this increase is in fact exclusively the result of higher prices for the same services, and thus does not include any increases in rent due to improvements through modernization, then only slightly more than one percent can be estimated for the real expansion of private consumption in the city, considerably less than in the overall national economy (+ 1.7 percent).

Something can be said for the assumption that this rate is influenced to not an insignificant degree by the strong influx of out-of-town visitors: The number of guests registered in Berlin's hotel industry--1.9 million--was 11 percent higher than the 1984 figure. The hotel and restaurant industry increased its turnover (+ 7 percent) as well as its number of employees (+ 4.3 percent) at an above average rate.

In contrast, in retail trade--a sector that is more than 95 percent dependent on the demand of Berlin's population--price-adjusted sales in 1985 were not significantly higher than in the preceding year; the number of employees remained unchanged. This was admittedly the first time in many years that retail trade in Berlin had not developed less favorably than this sector in the rest of the FRG.

An accelerated increase in available income can be counted on for 1986:

--Wage agreements will be higher than last year;



--The number of employed persons will again increase markedly;

--Transfer income will again increase more sharply.

Against this background and taking into consideration relief in the wage and income tax, the increase in consumer spending by domestic households can be estimated at 5.5 percent.

The rise in consumer prices will continue to drop off both in Berlin and in the FRG, not the least of all because of the drop in the price of oil and the decline of the dollar. However, since rent for housing in the city will increase comparatively sharply this year as well, the overall cost of living will probably continue to rise at a clearly faster rate (+ 2 percent) here than in the FRG. Nevertheless, private consumption will experience a real increase of 3.5 percent, and thus make a significantly more important contribution to the growth of the economy than has been the case up to now.

#### Increased Personnel in the Public Sector

Government consumption, that is, the personnel and property expenditures necessary in order to provide public services, rose last year in Berlin by approximately 4.5 percent (adjusted for price, 2 percent). Developments in expenditures varied in the different areas of the public sector: The regional bodies--federal and Land authorities--increased their consumption by about 3 percent, while the expenditures of the social services administration rose at almost double that rate. This increase can for the most part be attributed to additional spending for health care.

From a regional economic point of view, personnel expenditures--which account about 60 percent of public spending--and the corresponding developments in employment are of interest. In 1985 almost 205,000 persons were employed in Berlin's public sector--2,300 more than the year before. The largest part of this growth went to the Land government of Berlin, which increased its number of employees (including ABM workers) by about 2,000. The additional employees were exclusively part-time employees and trainees; the number of full-time employees remained constant.

Assuming that the trend towards part-time work continues, a development in personnel in the public sector can be expected similar to that in 1985. Government consumption on the whole should increase by 4 percent, adjusted for price 1.5 percent.

#### Accelerated Structural Transformation in the Construction Sector

Although the demand for construction work in 1985 was scarcely smaller than in the preceding year, the situation in the local construction industry--this is the only sector for which information is available--clearly deteriorated: Compared to 1984, construction work sank by 5.5 percent; at 59,000, average employment was 3 percent lower than in the preceding year; the number of unemployed workers in the construction trades exceeded the 1984 figure by 25 percent (8,000 persons).



However, concealed behind these average figures are highly diverse developments in both areas of the construction trade:

--In the primary construction in Berlin, production (measured against man-hours worked) fell a good 12 percent behind last year's figure. Employment was reduced by 4.8 percent.

--Berlin's finishing trade increased its production somewhat. It was possible to maintain the same employment level; at 26,000 as a yearly average, 45 percent of all employees in the construction trade were active in finishing.

The different market position of the two areas is also expressed in other figures: The unemployment rate for persons in primary building trades (17 percent) was nearly double that of persons in finishing trades. On the other hand, prices for primary building projects--measured against the housing price index--rose in 1985 by only 0.6 percent, while prices for finishing projects increased by 2.4 percent.

There are various reasons for these developments in Berlin's primary construction trade, which was surprisingly poor when viewed against the background of constant demand: First of all, the number of orders at the beginning of the year shrunk considerably after the jump in production in 1984. In addition, the number of days missed due to weather conditions exceeded the figure of the previous year by more than one quarter. Finally, the significance of imported construction components and projects may have increased again: This clearly in part has to do with the fact that last year, in keeping with the public housing program, there was a unusually high demand for owner-occupied housing--a type of building that is to an overwhelming extent prefabricated by manufacturers from western Germany. In addition, the orders for several major industrial construction projects were awarded to non-GDR firms.

Apparently less serious than in the primary construction trade are the claims made by non-GDR companies in the finishing sector. Furthermore, the latter is increasingly profiting from modernization of and repairs to old buildings. According to its own estimates, expenditures for this type of construction work in 1985 amounted to more than DM 1 billion, thus exceeding expenditures on new housing.

In 1986 the structure of demand in construction will continue to change. The accelerated realization of the housing construction program--from 7,000 units last year to 7,500 units--will be accompanied by a strong expansion in modernization. An increase of 10 percent can be expected in the demand for new housing construction. On the other hand, construction investments will continue to grow more slowly than in the previous year. However, the demand for services in the GDR in the primary construction trade will continue to grow, with a slight increase in employment.

## Capital Expenditures on Durable Equipment Continue to Rise Sharply

Capital expenditures on durable equipment in the Berlin economy rose last year by 10 percent, the same rate as in 1984; adjusted for price, they increased by a good 7 percent.

Nearly a third of the overall growth can be attributed to the increased investment activities in the energy sector. Here the equipping of a newly constructed power plant with machinery had a significant impact. However, there was also a clear expansion in equipment purchases in manufacturing as well as in the transportation and communications sector.

Information available at the moment indicates for 1986 accelerated growth in capital expenditures on durable equipment. An increase by more than half is planned in the energy sector. A survey conducted in February by the DIW among 75 large manufacturing companies showed that there will be considerably more investment in this sector of the economy than in 1985. There is no available information on planned investments in commerce and in the service sector. However, after the stagnation in capital expenditures on durable equipment last year, a strong increase can be expected for 1986, especially since output and employment in both sectors will expand significantly.

On the whole, capital expenditures on durable equipment in the Berlin economy, adjusted for price, will be around 10 percent higher than in 1985.

## Conclusion

Summing up the estimates for the individual components of demand indicates that Berlin's gross domestic product, adjusted for price, will increase this year by 3.5 percent.

The number of jobs will probably increase in 1986 by about 12,000 or 1.5 percent, to 871,000. Because an increase in the local labor supply and in particular a considerable amount of immigration by workers from the rest of the FRG can still be counted on, the number of unemployed will not drop far below 50,000.

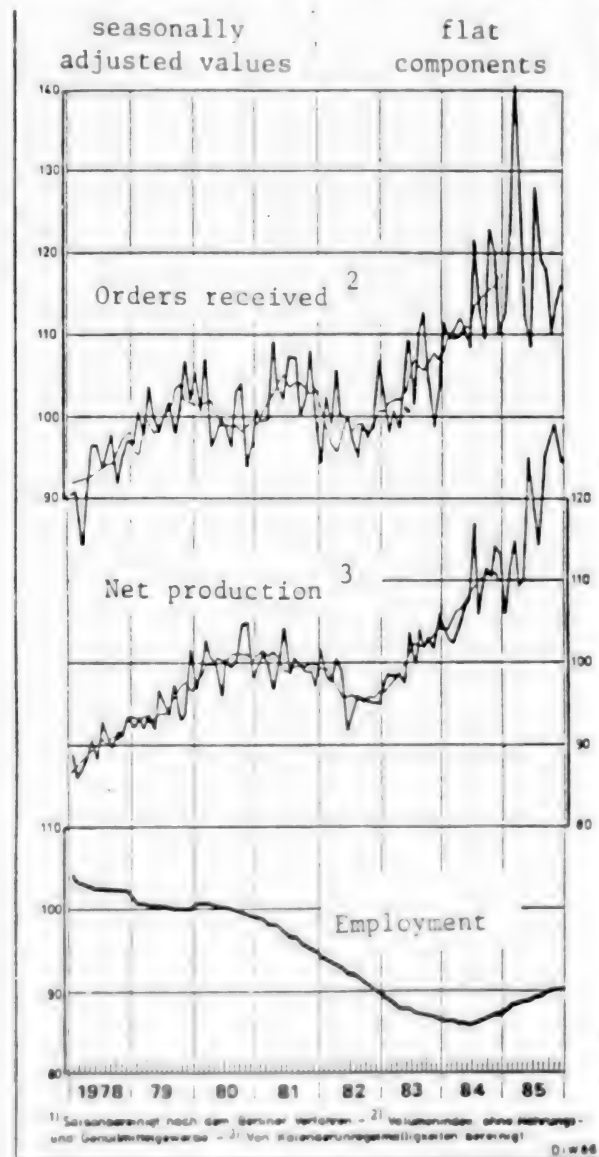
It is certainly also particularly important for the economic future of Berlin that the decline in the city's German population be halted, and this can only be achieved through lasting gains in immigration. To this extent, the current developments are to be welcomed. On the other hand, it cannot be denied that a significant reduction in unemployment in Berlin demands that a large part of the newly created jobs be filled by the local labor force. Improving the qualifications of the Berlin labor force remains of great importance.

In the last 3 years, Berlin has decreased its unemployment and is showing promising and encouraging results. The number of unemployed persons participating in the vocational rehabilitation measures supported by the Employment Service Office has risen sharply. However, their number within the total number of unemployed persons has remained stable. Significantly more than 100,000 persons

(five percent) in the 1985 average. In addition, even the rate of participation there is much too small given the structural unevenness of the labor market.

The relief measures for those participating in qualification measures which were cut back in 1983 were recently improved through a new change in the Labor Aid Act. As a supplement to this, the Berlin Senate introduced several measures to intensify ongoing education activities. In the coming 5 years, DM 40 million are foreseen for the first stage of this qualification program. From these resources, for example, companies that make a "training job" available to an unemployed person for 3 months are to receive a premium of DM 1,000. It is admittedly doubtful whether discernible and rapidly effective improvements can be achieved by measures on this scale. Thus, in the course of further steps, the financial incentives for setting up places for qualification measures should if necessary be noticeably increased. However, the employment opportunities resulting from participation in such measures must also be made clear. Without concrete prospects for a job, retraining and further skills may fail to interest many unemployed persons. Decisive progress in the area of skills are ultimately only achieved through joint efforts by all interested parties. It is especially necessary that companies, which often complain about the lack of suitable labor in Berlin, also significantly intensify their commitment.

Figure 1. Developments in Orders Received, Net Production and Employment in Manufacturing in West Berlin. Indices 1980 = 100



- 1) Seasonally adjusted according to the Berlin method.
- 2) Volume index, without the food, drink and tobacco industry.
- 3) Adjusted for irregularities in the calendar.

- 1) Fourth quarter is estimated.
- 2) Estimate.
- 3) Unadjusted gross product of the economic sectors.
- 4) Unadjusted, that is, includes assumed compensation for bank services.
- 5) Gross domestic product = unadjusted gross product less imputed compensation for bank services, plus non-deductible sales tax and import duty.
- 6) Gross social product = gross domestic product plus earned and unearned income received by Berliners from outside, minus earned and unearned income received by non-local residents from Berlin. This balance also includes the difference between the sales tax in regional production and the one in regional expenditure.
- 7) Local formula.

Sources: Statistical Office of Berlin; DIW

Figure 2. Unemployed and Short-Time Workers and Open Positions in West Berlin

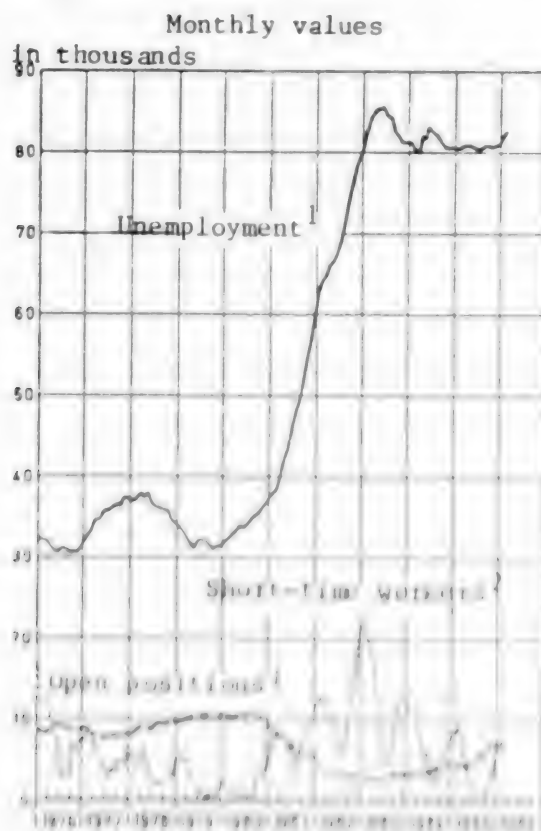




Table 1. Orders Received, Net Production and Employment in Manufacturing in West Berlin and in the FRG.<sup>1</sup> Changes compared to the previous year, given in percentages.

	Manu- facturing <sup>2</sup>		Chem.		Mech. Eng.		Motor Vehicles		Elec- tronics		Off.Mach. Data Proc.		Food		Tobacco	
	Berlin (West)	Bundes- republik	Berlin (West)	Bundes- republik	Berlin (West)	Bundes- republik	Berlin (West)	Bundes- republik	Berlin (West)	Bundes- republik	Berlin (West)	Bundes- republik	Berlin (West)	Bundes- republik	Berlin (West)	Bundes- republik
Orders Received <sup>3</sup>																
1984	8.1	6.3	3.2	7.1	-0.4	8.8	5.4	3.5	13.0	10.3	28.3	21.3				
1 Vj (7)	8.5	8.7	3.4	13.3	4.0	7.4	21.8	1.2	12.8	10.2	9.4	30.0				
2 Vj	5.9	5.1	1.8	7.7	-14.4	9.2	-14.3	-4.0	12.0	8.0	40.8	19.4				
3 Vj	6.4	7.0	-3.6	4.8	10.2	13.9	20.9	10.2	11.6	15.6	22.1	18.0				
4 Vj	11.4	4.4	10.9	2.5	1.1	5.8	-3.0	7.6	15.1	7.8	33.5	19.4				
1985	5.4	5.1	5.5	2.5	5.9	9.6	-1.0	12.8	-3.6	6.9	43.1	17.8				
1 Vj	13.7	3.2	10.3	2.2	-4.5	10.9	-7.7	6.0	-1.5	5.6	205.5	38.1				
2 Vj	5.6	8.3	8.1	4.1	15.6	14.1	10.0	27.2	3.2	9.0	11.2	16.7				
3 Vj	7.3	6.0	5.8	3.2	15.8	10.4	1.8	10.4	-2.1	6.3	32.1	11.9				
4 Vj	-3.8	3.4	-1.5	0.0	-1.6	3.7	-6.4	11.0	-12.4	6.6	10.3	8.3				
Net Production <sup>4</sup>																
1984	7.4	3.3	6.5	5.2	-6.3	0.3	2.4	-0.6	6.6	7.6	28.8	28.6	6.7	1.5	13.5	2.7
1 Vj	5.3	5.6	7.0	9.4	-12.1	-3.0	15.2	11.4	1.4	8.8	15.7	16.7	1.5	0.5	8.9	3.5
2 Vj	6.1	-1.4	3.8	4.9	-9.2	-1.2	-29.8	-26.4	10.6	3.8	26.3	24.8	6.9	1.9	15.4	0.3
3 Vj	9.9	4.3	8.5	4.6	-3.6	2.5	21.2	7.4	8.0	7.8	35.0	29.1	10.8	-1.2	12.7	1.3
4 Vj	8.2	5.3	7.1	1.9	-0.3	2.9	7.5	7.9	6.6	10.3	35.2	40.8	7.6	4.1	16.7	5.8
1985	8.0	5.7	8.9	2.2	8.5	6.6	1.6	12.6	11.9	12.2	44.2	26.6	5.0	2.8	6.5	4.4
1 Vj	6.8	3.7	10.8	0.9	12.6	7.6	-7.6	5.9	13.3	9.9	-10.7	23.7	13.1	2.6	12.8	10.2
2 Vj	6.1	8.9	13.7	4.2	-1.8	5.0	38.6	43.7	3.8	14.5	29.7	24.8	5.9	3.0	7.5	3.1
3 Vj	8.4	6.1	9.1	3.5	21.9	8.3	2.2	5.0	18.8	15.9	35.6	23.2	-2.8	3.2	2.5	0.6
4 Vj	10.6	4.5	2.4	0.2	3.8	5.4	-14.4	3.6	12.9	9.1	94.2	32.5	4.1	2.3	3.9	4.3
Employment <sup>5</sup>																
1984	-1.2	-1.0	3.3	0.1	-6.8	-2.5	-3.7	0.8	-0.7	0.9	5.3	4.0	-1.1	-1.4	0.7	-4.0
1 Vj	-2.8	-2.0	2.8	-0.8	-9.2	-3.8	-5.7	-0.1	-4.1	-1.0	1.1	0.9	-2.0	-2.1	1.9	-4.4
2 Vj	-2.1	-1.3	3.5	-0.1	-7.6	-3.0	-5.1	0.3	-1.9	0.4	3.2	2.2	-1.9	-1.6	-1.8	-4.9
3 Vj	-0.8	-0.8	3.8	0.5	-5.9	-2.1	-3.0	1.2	0.5	1.4	6.1	5.3	-0.8	-1.2	1.1	-5.6
4 Vj	0.6	-0.1	3.4	0.8	-4.4	-1.3	-1.0	2.0	2.8	2.7	10.7	7.6	0.3	-0.8	1.5	-2.8
1985	3.2	1.4	3.1	1.9	-1.3	2.4	-6.0	3.7	6.6	5.2	12.2	6.7	-2.4	-1.0	2.0	-9.9
1 Vj	2.1	0.8	3.6	1.1	-3.9	3.4	-1.9	7.1	5.3	4.1	12.0	6.3	-0.1	-0.6	1.9	-8.7
2 Vj	3.3	1.2	2.5	1.7	-1.6	1.8	-1.4	2.8	6.8	5.3	13.8	7.2	-2.0	-1.1	2.8	-10.2
3 Vj	4.1	1.8	3.7	2.4	-0.3	3.4	1.1	3.2	7.8	6.0	12.7	7.1	-3.7	-0.9	0.7	-5.1
4 Vj	3.8	1.6	3.5	2.4	0.7	4.2	2.1	3.7	6.3	5.6	10.4	6.2	-4.0	-1.4	2.5	-10.4

1) Including West Berlin.

2) Companies with 20 or more employees. Orders received not including food, drink and tobacco.

3) Adjusted for price.

4) See working day.

5) By technical fixed-asset units.

6) Estimate.

7) First quarter, etc.

Table 2. Data on the Total Economic Budget in West Berlin. Changes compared to the previous year, given in percentages.

<u>Economic Sector or Expenditure Component</u>	<u>1983</u>	<u>1984</u>	<u>1985<sup>1</sup></u>	<u>1986<sup>2</sup></u>
Development of the Social Product <sup>3</sup> (at 1980 prices, without excises)				
Production industries	5.8	9.3	4.4	4.5
Energy, water supplies	6.7	3.4	1.8	2.0
Manufacturing	3.5	2.8	7.4	5.5
Construction	-0.4	5.8	-5.6	0
Trade and transportation	0.2	0.6	0.4	2.5
Trade	2.2	1.0	0.7	2.5
Transportation and communication	-0.7	4.5	-0.5	2.0
Private services	3.0	2.6	3.9	4.0
State	0.1	0.9	1.9	1.5
Overall gross Wertschoepfung <sup>4</sup>	1.9	2.5	3.0	3.5
Gross domestic product <sup>5</sup>	1.9	2.8	3.0	3.5
FRG gross domestic product	1.2	2.6	2.4	3.0

Expenditure of the Social Product  
(at 1980 prices, without excises)

Domestic use	2.9	2.9	1.5	3.0
Private consumption	1.5	2.2	1.2	3.5
Public consumption	0.8	1.0	2.0	1.5
Capital expenditures on durable equipment	9.8	7.9	7.2	10.0
Construction investments	1.3	6.6	-6.2	0
Supraregional delivery of goods	2.1	4.2	6.5	5.8
Supraregional purchase of goods	2.2	-0.2	9.1	9.5
Gross social product <sup>6</sup>	1.2	2.7	2.8	2.3
FRG gross social product	1.5	2.7	2.5	1.8

Employment<sup>7</sup>

Production industries	-0.1	5.1	1.5	1.5
Energy, water supplies	-0.8	1.8	3.2	1.8
Manufacturing	-0.5	3.2	2.2	2.8
Construction	-1.1	3.1	-0.8	-0.8
Trade and transportation	-0.1	0.7	0.9	0.8
Trade	-0.4	0.3	0.2	0.2
Transportation and communication	0.3	1.1	1.5	1.4
Private services	1.2	1.2	1.8	2.0
State	1.3	1.1	1.1	1.0
Total employment	1.5	2.7	2.5	1.8

1) Seasonally adjusted according to the Berlin method.

2) Original data

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ECONOMIC

FRANCE

# BUDGET MINISTER REVEALS DENATIONALIZATION GUIDELINES

Paris LIBERATION in French 11 Apr 85 pp 3-4

[Interview with budget Minister Alain Juppe, by Martine Gilson and Pierre Briancon: "Juppe: Privatization Will Come in Summer at the Earliest"]

[Text] Denationalization, anonymity in gold transactions, tax on oil products, and a hike in levies; in an interview with LIBERATION the budget minister stated the government's economic policy.

[Question] Why does the government want at all costs to reverse not only the 1982 nationalizations, but also those of 1945?

[Answer] When one considers that it is unhealthy for the state to administer directly industrial and commercial enterprises in the competitive sector, why should this principle be applied solely to businesses nationalized after 1981? It is a question of simple logic. We are deeply convinced that apart from public services and de facto monopolies, it is not the state's role to be an industrialist or trader.

[Question] But the bill to achieve this leaves out Renault and the iron and steel industries.

[Answer] These are exceptions demanded by the circumstances. These sectors are in the sort of situation that makes privatization impossible. It is not a question of principle; in Renault's situation eventually improves, we see no obstacle to its privatization.

[Question] This simply means that as far as you are concerned, Renault, Usinor and Sacilor could not be turned over to the private sector in the next 5 years?

[Answer] Exactly.

[Question] At this point do you have an estimate of the cost of privatization?

[Answer] Let me remind you that there is no cost, quite the opposite: it will bring in revenue to the state. But it is not to find revenue that we are going

ahead with denationalization. The point is to modify the dividing line in our economy between the state and the private sector. Having said that, we believe that the value of these businesses today is more than Fr 200 billion. That only gives an idea of the value which will be determined during the procedure of evaluating these businesses as stipulated in the laws which will be passed. We will look as far afield as possible for advice on the subject, including, why not, experts in the private sector.

[Question] The opposition fears that the national heritage is being sold off.

[Answer] That is not really a serious objection. First of all, the "national heritage," as far as I'm concerned, includes private as well as public enterprise. Then I can assure you that the state will not be penalized in this operation.

[Question] Besides the problem of the date of denationalization of the businesses concerned, Francois Mitterrand has also expressed reservations about reconsidering the so-called "public sector democratization" law.

[Answer] If you reread the prime minister's speech, you will note that we have no intention of doing away with government employees on boards of directors. On the contrary, we plan to extend this measure to the private sector on a consultative basis.

[Question] How will "democratization" be safeguarded when in judicial terms there will no longer be a "public sector"?

[Answer] Provisions are made for that in the bill. Industries earmarked for privatization will have the choice of either remaining under the present system, or of coming under the common law applicable to limited liability companies with the possibility of retaining civil servants on their boards of directors.

[Question] In your opinion, would the president of the republic have the option of not signing certain bills on privatization?

[Answer] I don't want to get involved in a quarrel of experts on the establishment because I am not one. My belief is that the bills must be signed. In any case, if there is a conflict, the parliament calls the shots. It will decide by passing a law.

[Question] Is there a desire to make a very rapid change in managing directors of the nationalized industries, in short, to carry out a "witch hunt"?

[Answer] I think that Edouard Balladur has taken sufficient precautions that I can state the contrary. Calling the bank presidents together, he indicated to them that they should continue to manage their affairs but that privatization was a government matter.

[Question] So the government will not change the managing directors concerned?



[Answer] I didn't say that. After the privatization bill is passed the government will quite obviously have the power to appoint new directors.

[Question] But will it use that option, and if so, by what standards?

[Answer] By standards of competence, and people's capacity to do a good job of privatization. In any case, not according to political criteria. Let me also point out to you that the law, under the best of circumstances, will not be passed before June. The actual realization of privatization won't come until summer at the earliest. Between now and then, we also have other tasks to accomplish.

[Question] Specifically, working out the budget. How do you plan to make cuts of Fr 10 billion?

[Answer] When working out a budget, there are two considerations. First of all there is the result of what I will call the existing situation. We observed that in the 1986 budget there were some appropriations that will suffice, because they were underestimated by a good Fr 10 billion.

In addition there are new measures which we plan to take. The most important is the employment of young people, which will cost several billion francs, between 3 and 5 depending on what is finally determined. There are also measures for agriculture and security, but which total only in the hundreds of millions.

[Question] Do you plan on beefing up the police force?

[Answer] Yes, but not by creating positions in the stricte sense, but perhaps by increasing work hours.

[Question] In view of these expenditures, what revenues or savings do you expect to make?

[Answer] There will be Fr 10 billion in cuts which will affect everyone. Thus, what has already been announced for civil service salaries will generate savings of several billion. The other cuts will be divided among all ministries. Industrial policy loans will be appreciably reduced.

[Question] This effort had already been begun by the Left. Are there still cuts you can make in the future, when the 1987 budget is discussed?

[Answer] Yes, if only because what will be begun this year will take full effect in 1987. Let's take the reduction in the civil service work force: the budget bill we are inheriting called for the abolition of 5,000 jobs, and of these we will include 1,500 to 2,000 in the budget bill. Then we will put a focus on positions left vacant: that will come to 15,000 in 1987.

[Question] There was a debate in government concerning the advisability of raising the tax on oil products. Has that been decided?

[Answer] Yes. There will be no increase in the national tax on oil products without consultation with our European partners, particularly Germany.

[Question] Another question arises, particularly in the light of the amnesty promised to those who bring their capital back into the country: will the tax on large fortunes be abolished in 1987, or in 1986??

[Answer] For taxpayers, the effect of the abolition of the IGF [tax on large fortunes] will only be felt in 1987. On the other hand, to clarify matters, we could--and this is a hypothesis--announce the abolition proceedings at the next session on the budget.

[Question] The government is also contemplating reforming the savings system. What does it have in mind?

[Answer] At the present time, we have a tax system that is much more favorable for bonds than it is for shares. That is not very healthy. Businesses need to increase their capital, and we must also guarantee the success of privatization on the stock exchange. We will therefore progressively correct this difference.

[Question] It is also said that the government intends to reintroduce anonymity in gold transactions.

[Answer] You will see when the budget is presented.

[Question] The conjecture is not completely off target?

[Answer] We are thinking about it. If one wants to establish confidence, if one wants to attract capital back into France, we will need flexibility, and therefore anonymity.

[Question] What about the drop in interest rates on savings accounts?

[Answer] That will come in good time when the general drop in interest rates becomes effective.

[Question] The government estimates the deficit for the social security system at Fr 20-25 billion. Will it be able to avoid raising taxes?

[Answer] It is true that in this area we are inheriting a worrisome situation. At the moment figures are hard to come by, and we are trying to see things more clearly. On the one hand, we don't want to take the easy way out which consists in raising taxes the moment there is a problem. We will therefore try to see if it would not be possible to administer the system better, while at the same time preserving the principles of social insurance. Above all we want to get the figures on the table so we can discuss them with trade union and professional organizations with which I'll be meeting next week.

[Question] But in your opinion, is a hike in assessments avoidable?

[Answer] That is what the government wants to do.

[Question] Sometimes there is talk of a tax in proportion to total income, like the one percent once decided upon by the Left.

[Answer] We want to avoid it, but we have a narrow margin. We must be plain: you can't have your cake and eat it too.

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ECONOMIC

FRANCE

## COST, CONTROL PROBLEMS SEEN IN DENATIONALIZATION

### Pricing National Companies

Paris LIBERATION in French 11 Apr 86 p 4

[Article: "How to Sell National Industries"]

[Text] Turning national industries over to the private sector is one thing. Knowing at what price to sell them, how to prevent their falling into foreign hands and to whom to entrust their management would be better. But for the time being, these questions still await an answer.

Are the industries to be turned over to the private sector worth Fr 140-150 billion as opposition experts maintained in autumn; or Fr 200 billion, as some financiers and Alain Juppe (see p 3) believe today? It is not even certain that the truth is somewhere between these two figures. Experts of both Right and Left are ready to hurl billions of francs in each other's faces, because it is virtually impossible to determine correctly the value of industrial and banking corporations as large as those in the public sector.

Several methods can be used.

When an industry is assessed on the stock market, it can be valued by multiplying the rate for its stocks by the number of shares. One can thus take the rate for investment certificates, which are shares without voting rights issued by the nationalized industries. But this figure gives a static value at any given moment. Their rate has fluctuated by 40 to 50 percent during the last 6 months. Which is the right one? It all depends on the sector in which a company is active and on the state of the financial market at any given time. As a matter of fact, in theory the price of a share represents a multiple of the profit made by a company. The relation between the rate and the profit per share gives a coefficient called the PER (price earning ratio). This indicator seems to be reliable, but it varies considerably according to sector and especially time. The average PER was about 11 in autumn, and is 15 in Paris today: a swing of 35 percent. At the same time, the value of the public sector has sharply increased. It could drop once again if the French financial market had a bout of the blues faced with the huge number of companies to be swallowed.

The value of a company can also be gauged by taking into account the value of its assets (buildings, machines, holdings, etc.). The result will obviously be very different from the preceding estimates. Even more troublesome for the Rue de Rivoli "privatization advocates," this criterion also varies according to the quality of the assets.

Finally, a very subjective factor must also be taken into account: "goodwill." This element is peculiar to each company. It represents its "edge." An industry like the CGE, which has a virtual monopoly in some of its areas of activity, has a very high "goodwill" level. That is also the case for the two commercial banks, Paribas and Suez. What price can be put on it? Hard to say, but certainly not the same price for a private individual who buys a few shares or a financial group which buys a block of shares and has an industrial project in its briefcase.

Placing a value on the public sector will thus represent a subtle mixture of these criteria. With an additional consideration: reasonable prices will have to be set if one really wants to attract interested French people and their savings.

#### Estimated Value of Industries

Paris LIBERATION in French 11 Apr 86 pp 4-5

[Article by Thierry Philippon: "The Bill According to Our Estimate"]

[Text] The "privatization advocates" of the Ministry of the Economy and Finance are in the process of concocting a nice recipe for indigestion for the French financial market. LIBERATION's estimate diagnoses Fr 225 billion for the public sector's heavyweights. If one adds the small banks that were not included, the total comes out even higher.

The value of companies like Paribas, Thomson, and Pechiney was calculated in two ways. For the good students in the public class who had the audacity to issue investment certificates (shares without voting rights) under a leftwing government, the theoretical value of privatization was determined by multiplying the rate for the certificates quoted on the stock market by the number of shares making up the capital. The result seems a bit high, because French and foreign investors have pounced like madmen on the certificates during the last few months. Thus the rate for the Paribas Finance Company certificate has gone sky high: 68 percent in 4 weeks.



# Companies Nationalized in 1982

Industrial Companies	State Holdings (in percent)	Nationalization Value (in billions of francs)	Privatization Value (in billion)
CGE (2)	100	3.9	7.2
Pechiney (1)	82	3.65	11.1
Rhone-Poulenc (1)	90	2.75	21.5
Saint-Gobain (2)	100	6.05	9.0
Thomson S.A. (2)	100	2.16	3.6
CGCT	100	0.215	(loss)

## Finance Companies

Paribas (1)	75	5.0	24.0
Suez (1)	79	4.9	20.0
CIC (1)	45	0.92	5.6
CCF (3)	100		

## Other Companies in the Public Sector

Company Name	State Holdings (in percent)	Privatization Value (in billions of francs)
BNP (2)	100.0	25.2
Credit Lyonnais (2)	100.0	14.4
Societe Generale (1)	83.0	18.3
AGF (1)	78.3	16.0
GAN (1)	89.0	9.8
UAP (1)	88.5	18.2
Agence Havas (1)	50.2	4.5
Avions Dassault (1)	46.0	13.0
Elf Aquitaine (1)	67.0	23.5
Machines Bull (1)	95.0	9.0
Matra (1)	51.0	3.4
Total-CFP	40.0	10.8
Roussel Uclaf (1)	28.0	7.5

(1) The privatization value was calculated by multiplying the investment certificate rate quoted on the stock market by the number of shares making up the company capital. These figures must be balanced by the holdings of the state.

(2) The privatization value was calculated by multiplying the 1985 consolidated results (group share) by an average uniform coefficient of 12. This ratio is below the current multiple stock market average of 15.

(3) The CCF Finance Company did not exist in 1982. It is impossible to estimate the cost of nationalization. Moreover, the company will publish its first consolidated results this year. Its value may be estimated at between Fr 6 and 7 billion.

22 May 1986

In some cases, one arrives at astronomical amounts. The Societe Generale seems to have received a generous estimate. Corporations such as Pechiney and Rhone Poulenc, whose activity is very cyclical, are not a particularly good bargain at the current price. As a matter of fact, they have benefited from apparent scarcity: 9.8 percent of Rhone Poulenc's capital quoted on the stock market does not have the same price as 100 percent of the capital distributed in the private sector. It would be hard to find buyers on the market at that price. The profit potential for possible subscribers would be too slight.

For companies that have no stock market rating in the form of investment certificates, the privatization value was calculated by multiplying profits for 1985 by a coefficient of 12. This multiple is below the current ratio on the stock market, but it seems to be quite generous considering the number of shares to be placed on the financial market. During the large-scale denationalization maneuvers, it should in any case vary according to the sectors in which the companies are engaged: the General Electric Company works in areas which are "worth" more, those of Saint-Gobain.

Other corporations such as Agence Havas, AGF, and Dassault, already have stock market ratings in the form of shares. They were valued in terms of their rate at the beginning of the week.

The total comes to Fr 225 billion because the state does not own 100 percent in all cases. Since the market capitalization of Paris is currently nearly Fr 945 billion, this represents nearly one quarter. If one makes the comparison with the volume of issues of new shares in 1985, already very high that year with Fr 68.4 billion, the bill for the public sector is even steeper.

#### Preventing Foreign Control

Paris LIBERATION in French 11 Apr 86 p 5

[Article by Francois Came: "Finding a Way of Preventing Foreign Takeovers"]

[Text] In order to prevent any inappropriate takeovers of "economically substantial" denationalized companies by foreign investors, the government could have recourse to "the golden share," a method used across the Channel. But nothing has been decided.

They are waiting. English retirement accounts, Swiss multinationals, Belgian banking corporations, American giants, all are patiently watching the future little Red Riding Hoods of French denationalized industries. Without including the Italians, Olivetti, Fiat, and the rest. They have the capital and hope to make juicy purchases. They could be welcome, because they expand the capacity of the French market to absorb denationalization. But things are not so simple. The government's liberalism as a matter of fact comes to a halt before a thoroughly understood nationalism; nothing has a worse effect than to seem to be "selling off French industry." A response is therefore necessary.

It already exists. Its name has the ring of that of James Bond: "the golden share." The latest secret weapon of Her Majesty when it comes to privatization. For at the moment it is towards this system that Camille Cabana's

departments are turning, in order to be able to deliver a veto on any undesirable takeover of "economically substantial" companies. The advantages: the "golden share" has already been tested in Great Britain with Jaguar, Cable and Wireless, etc., and the principle of it is simple: when the state turns a company over to the private sector, it relinquishes all shares but one, to which the new bylaws give very special rights, particularly that of rejecting a direct investment unacceptable to the government, rejecting a transfer of assets, and choosing the nationality of the managing director (as with British Telecom). The procedure is admittedly not very orthodox, but there is a time limit: after 5 of 10 years, the "golden share" disappears and the business then lives its own life.

The French version has not yet been finalized. Nothing has yet been decided. But at this point, the "golden share" seems to be one of the best answers to an indisputable observation: the current regulations are "inadequate" for controlling foreign appetites. With the exception of banks, insurance companies and companies operating in areas affecting public order or health, where the state has special powers of control, serious breaches remain.

Foreign investments are, of course, subject to prior authorization when they represent more than 20 percent of the capital of the French company concerned; but the rule applies only to investors outside the EEC. When the purchase of shares is by investors whose capital is more than 80 percent made up of European funds, the government receives only prior notification. And does not then have the power to oppose the deal. In short, nothing would prevent the Germans or Italians from taking over the future denationalized industries tomorrow. That is the first shortcoming. The second is not a negligible one either: since the level triggering the prior authorization mechanism is fixed at 20 percent, nothing prevents the denationalized companies listed on the stock market from falling prey to several foreign investors (EEC or non-EEC), each limiting themselves to a 19.9 percent holding.

Aware of the problem, the RPR and UDF groups had thought first of all of setting up a general rule forbidding a single group or individual from acquiring more than 10 or 20 percent of the capital of denationalized industries introduced on the market. In fact, such a principle would provide a good check on European investments, which at the moment cannot be guarded against. But this is a two-edged sword: it would at the same time prevent any French person from buying more than 10 or 20 percent of these denationalized companies.

The possibility remains, therefore, of formulating such a rule only for EEC foreign investors. But even if some are thinking of this, it hardly seems likely that the European Commission would accept such a decision. On the other hand, the "golden share" is a much more flexible system. It would be applicable to only a few industries. The most important ones. But it would provide in a palatable way the possibility of denationalizing...without stripping the state of its power of control.

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ECONOMIC

NORWAY

# FINANCE MINISTER: OIL PRICE DROP REQUIRES CONSUMPTION CUT

Oslo AFTENPOSTEN in Norwegian 15 Apr 86 p 3

[Article by Eivind G. Karlsen: "Consume Conspicuously Less!"; first paragraph is boldfaced lead-in in original]

[Text] The Norwegian economy is in for some rough sailing, and we--both the government and private citizens--must reduce consumption considerably. The government has introduced substantially altered assumptions about the years 1986-1989 with watchwords like lower oil prices and revenue shortfalls, clearly impaired ability to compete and too strong an increase in public spending. The result may be an unemployment increase of roughly 40,000 man-labor years. Oil revenues, which amounted to more than 51 billion kroner last year, may drop to 3 billion in 3 years. New belt-tightening measures are expected in May, and there will hardly be any special increase in the national budget for 1987.

The gloomy outlook is clearly present in a parliamentary report which the government has submitted on the prospects for the long-range program that was adopted last summer: it is necessary to make comprehensive changes in economic policy and to show restraint in fixing income levels in order to combine low unemployment with a favorable trend in expenditures. Otherwise we can expect much stronger retrenchment measures than the "Easter package," which was just a foretaste, warn the government and Finance Minister Rolf Presthus.

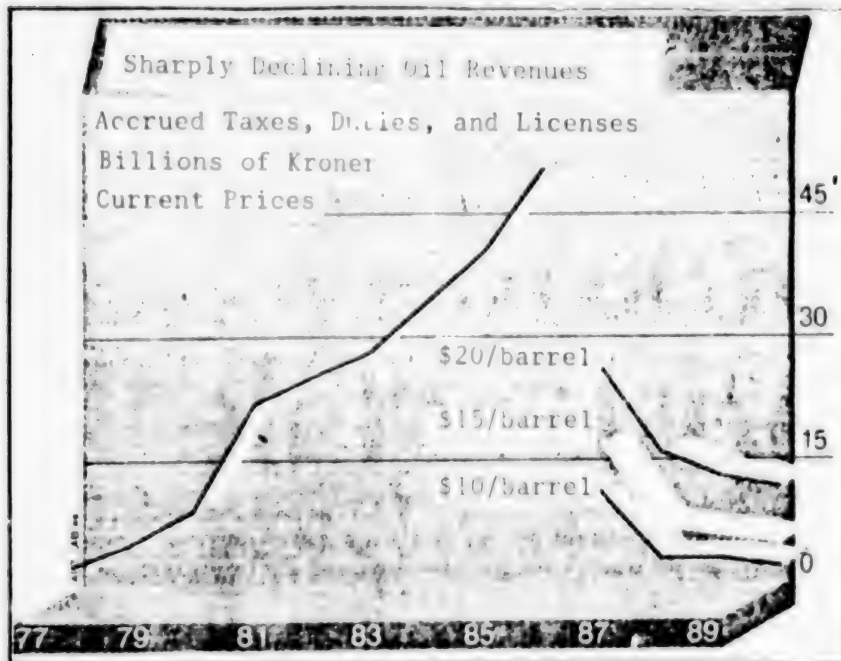
## Health and Social Affairs Spared

Measures are already being taken which will possibly be introduced in connection with the revised national budget in May. And the altered conditions and prospects will undoubtedly affect next year's national budget. Growth will be less than it was in recent years, according to the finance minister. What it boils down to is cutbacks in several areas, among other reasons, in order to continue to achieve real growth in the health and social-affairs sector.

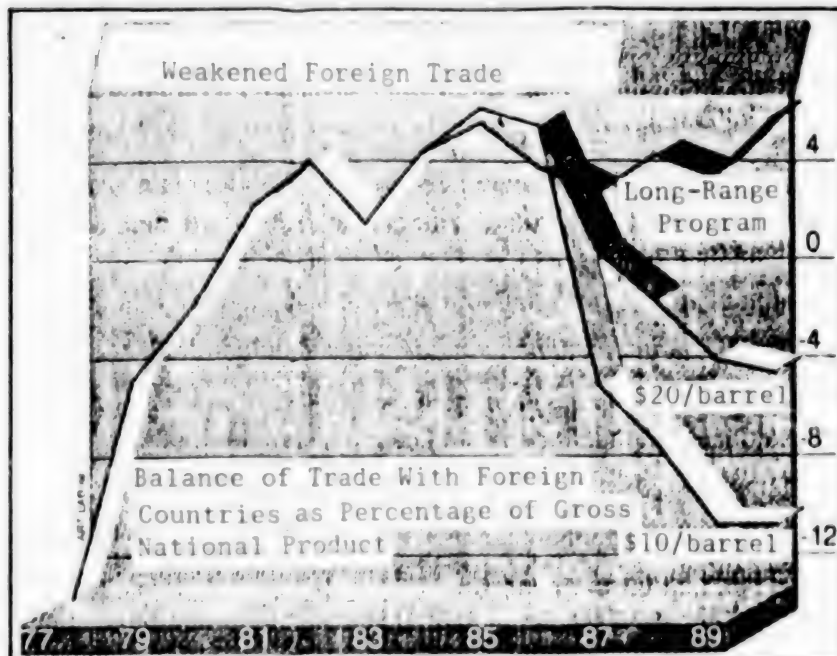
Comments from opposition parties in the Parliament indicate there is sympathy with the view that we must now start to live within our means. But the parliamentary report has also given rise to criticism.

Labor Party leader Gro Harlem Brundtland points out, among other things: Uncertainty about important economic assumptions makes it even more imperative to develop

(Source: Finance Ministry and Central Statistical Bureau)



The government and the Parliament had counted on increasing oil revenues in the future (the curve on the left in the diagram). Now the curves point in the opposite direction. The price of oil is again decisive.



Foreign trade will be weaker than assumed in the government's long-range program. The weakness depends on the future price of oil.



a strategy to compensate for weaknesses in the Norwegian economy under the new economic circumstances. As the government has not seized the opportunity to introduce such a program, it confirms the impression of a feeble and passive government with no desire to take the necessary responsibility.

Back to the government's description of the situation: an important starting point is the oil price drop from roughly \$30 per barrel to under \$15, a drastic reduction which most people have been able to follow from day to day, so to speak. The government also places great emphasis, however, on other negative features in the picture, especially the failing ability to compete. The expenditure trend is going in favor of our trading partners. Our competitors produce more efficiently than we do, and we are losing shares of the market. It is established in the parliamentary report that our competitive ability declined by about 5 percent from 1984 to 1986, and this year there is a danger it will fall even more sharply. In this connection, the government submits various statistics concerning the effects on jobs.

Computations in the long-range program showed that with a 2-percent higher wage increase over 4 years it will be possible to reduce employment directly by about 16,000 man-labor years and the balance of trade by roughly 4 billion kroner. If we fail to achieve a slower growth of expenditures and if the balance of trade is maintained by a reduction of domestic demand, the computations in the long-range program indicate that employment can be reduced by altogether 40,000 man-labor years.

As mentioned before, the most dramatic change in the economic circumstances is the sharply reduced price of oil. Here the government presents three different estimates for oil revenue based on average prices of \$20, \$15, and \$10, respectively per barrel of crude oil. They give drastic reductions in comparison with the original estimates and last year's 51.5 billion kroner in accrued state oil revenues: according to the three estimates, accumulated taxes in 1989 will lie between 3 and 13 billion kroner. And total revenues for the rest of the period will probably be less than what oil brought into the state treasury in 1985 alone.

The government also estimates a reduction of 30-40 billion kroner in oil revenues in the long-range program. For the sake of clarity, it is stressed in the parliamentary report that such a drop in oil revenue will also mean a substantial reduction in total public revenue.

The balance of foreign trade is also upset: the drop in oil prices and the strong increase in imports can lead to a weakening of 50 billion kroner from 1985 to 1986. This corresponds to more than 10 percent of the gross national product. This year the deficit may be around 30 billion kroner--and even higher next year.

The government does not deny that public expenditures have risen too sharply. It therefore announces tighter budget proposals during the next few years, with significantly stricter prioritization and with readjustment of expenditure policy over a broad field. Finance Minister Presthus has confirmed that in the national budget for 1987 we must expect less growth than in recent years--and there may be substantial cutbacks in some areas. On the other hand, the government emphasizes that there will be continued growth in the health and social-affairs sector.

"We must tighten our belts in continental Norway and become more efficient," stresses the finance minister. The government will also take a closer look at the national budget's revenue side--that is to say, taxes, duties, and licenses--and at capital transfers, says the finance minister, who has not lost his faith, however, in tax cuts and the Conservative Party's dynamic tax policy.

"The need for a tax policy which encourages extra effort is actually greater than before. But the chances of implementing such a policy for 1987 are worse than they have previously been," admits cabinet minister Presthus.

This weekend, apparently, Rolf Presthus will be elected new chairman of the largest government party. Does the finance minister feel he is leaving a "bankrupt estate" behind him? No. To be sure, the oil price drop makes the outlook much worse than one had hoped. But the price trend is clearly better than it was a few years ago, and industrial production and investments have picked up, points out Presthus, who for that matter can take delight in his quite remarkable personal popularity--remarkable for a finance minister.

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ENERGY

SWEDEN

PAPER REPORTS ON GAS DRILLING PROJECT AT SILJAN RING

Oslo AFTENPOSTEN in Norwegian 26 Mar 86 p 10

[Article by Mariann Nordstrøm]

[Text] Contrary to modern insight and recognized science, a small number of Swedish optimists assume that oil and gas seep toward the surface from the interior of the earth. This summer, they will stake a total of 150 million Swedish kronor to prove that theory. In the spruce forests of Dalarna in Central Sweden they will erect an inland drilling rig of 60 meters to drill Sweden's deepest drill hole. Five kilometers into the hill they hope to find a large reservoir of natural gas.

Since 1981 a group of employees at Vattenfall, the Swedish State Power Board, have been keenly interested in the controversial theory. Thomas Gold, a most controversial American astrophysicist, is the man behind the deep-gas theory which the Swedes now intend to test.

To put it briefly, Gold is of the opinion that hydrocarbons--such as oil and natural gas--are not only formed at the decomposition of organic matter. They may also come from a source in the interior of the earth. More precisely, from the mantle--the innermost layer of the earth.

Gold is of the opinion that large quantities of hydrocarbons dating back to the formation of the earth 4.5 billion years ago are to be found in the mantle of the earth. Natural gas, possibly oil, seep toward the surface of the earth from this enormous layer.

Meteor Crater

The place selected by Gold himself for the drilling for deep gas might very well have been taken from a science fiction novel. Far into the woods at Mora in Dalarna is the Siljan Ring, the crater produced by the largest meteorite impact in Europe. Three hundred and sixty million years ago, the meteorite hit the rock at such a high rate of speed and force as to cause the granite to disintegrate several kilometers below the surface.

## "Crushed" Mountain

This is one of the reasons why the Siljan Ring was chosen for the project. Sweden's primary rock, the granite, is normally not sufficiently porous for gas to seep through it. But because the rock of the Siljan Ring was crushed at the impact of the meteorite, gas from the mantle would here find an excellent way of escape to the surface.

However, in order for a reservoir, a major gas storage, to be formed, gas leakage to the surface will have to be prevented. In the Siljan Ring, the surface is sufficiently hard and dense to effectively prevent leakage. On the outskirts of the Siljan Ring, however, gas is seeping toward the surface.

In the center of the Siljan Ring is an elevation which might indicate the presence of a hollow space below the surface. A great number of prerequisites for finding quantities of natural gas would, according to Gold's theories, thus be present in the Siljan Ring.

## Gas Fever

So far the project has cost 30 million Swedish kronor, all of which has been granted by Vattenfall. And following a TV program last fall, a regular gold fever has been raging within our sister country. A total of 97.5 million Swedish kronor worth of stock in the limited stock company of Dala Djupgas Provboring KB has been sold to private persons, municipalities, organizations and enterprises. In addition, the American Gas Research Institute in Chicago has contributed 2.8 million dollars and is willing to contribute another 1.5 million dollars if the test drillings should go beyond a depth of 5 kilometers.

## Money Thrown Away?

The optimism has been extremely infectious. Nevertheless, it does not comprise everybody. A number of Swedish geologists have ventured to issue warnings against the optimism. In a broad frontal attack in the newspaper DAGENS NYHETER some time back, those responsible for the project were charged with downright throwing away 150 million Swedish kronor, which the test drillings have been estimated to cost.

"The attack caused a setback in the sale of stocks of our limited stock corporation," the leader of the project Tord Lindbo of Vattenfall says dryly.

"But we reacted by dressing up our rank of big shots: A Soviet and several prominent Swedish professors as well as American first-rate expertise."

Lindbo points out that the enterprise is serious and watched with great interest in many countries.

"We have drilled several test holes all the way down to a depth of 500 meters. They have shown, among other things, that the surface of the earth is especially thick in the Siljan Ring. In addition, we have encountered several pockets of gas," Lindbo says.

#### Norwegian Skepticism--Doubtful Project

Few in this country know about, or are interested in, Gold's theories and the tests on the part of the Swedes. Arne Råheim, a geologist with the Institute for Energy Technology at Kjeller, says with a smile that it would have been better for the Swedes to invest 1 million Swedish kronor in those who advise against the drillings than 150 million Swedish kronor in a very doubtful project.

"If there are carbohydrons in the mantle, they hardly occur in the way assumed by Gold," Råheim says.

"The farther into the earth the minerals occur, the greater their specific weight. The quantities are in that case small and a drift, if any, toward the surface insignificant. If there is gas under the Siljan Ring, the quantity is most likely to be so small as to make production uninteresting from a purely economic point of view.

#### Drillings to Start on 1 July

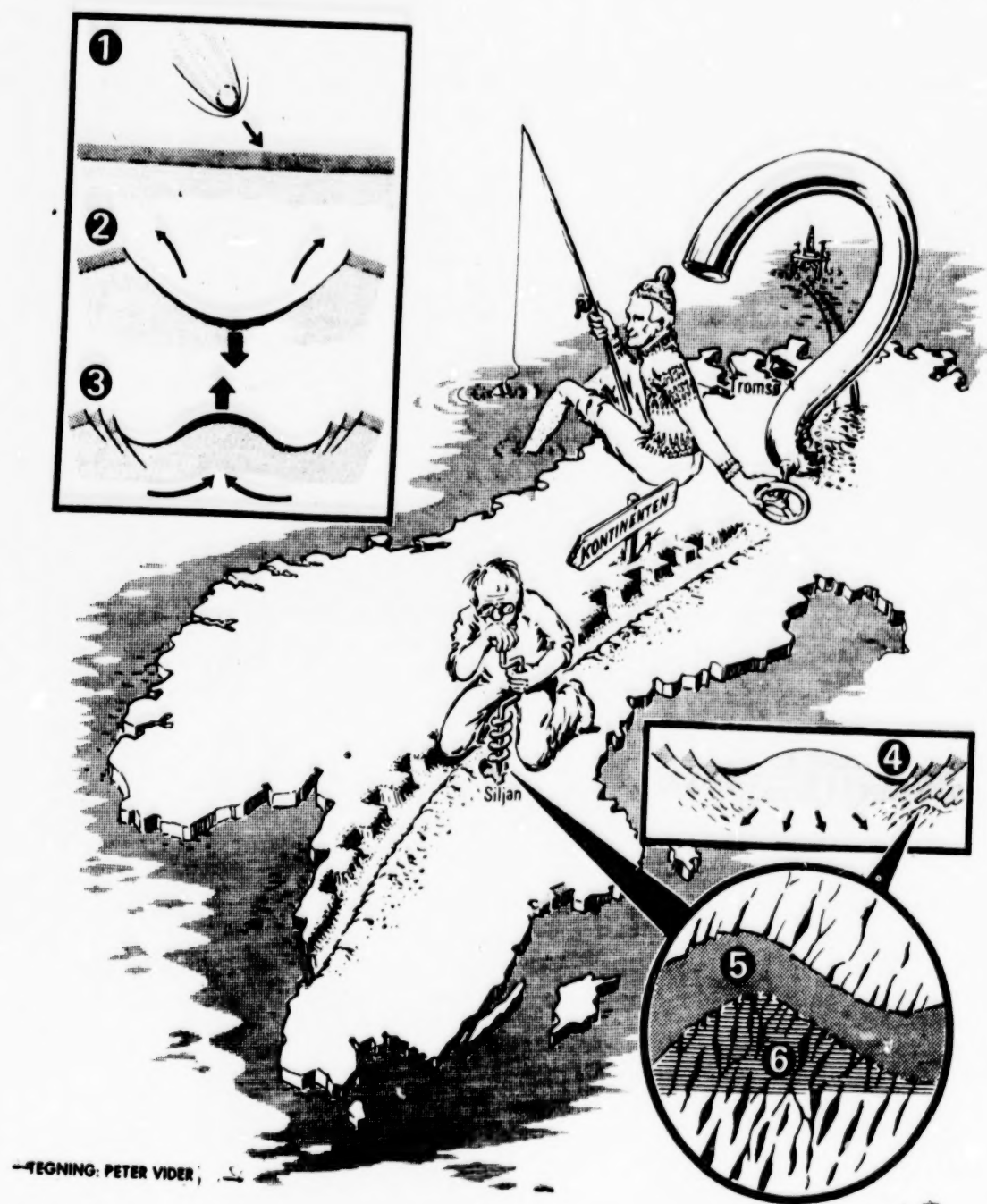
However, Swedish optimists have so far won the battle. In the course of June, the drilling rig, which, in all probability, will come from Oklahoma in the United States, will be shipped across the Atlantic and into the Swedish forests. Everything will have to be ready for the drillings to start on 1 July of this year. At present, the preparations are in progress, involving the cutting of trees and reinforcement of the roads leading to the Siljan Ring, where about thirty people will be employed for about 6 months before the drilling crown will reach the promising depths.

#### A Possibility?

The leader of the project is optimistic. He believes that there is a possibility--if not for 100 percent--of finding natural gas in Dalarna. And if they do find gas, Dala Djupgas Production AB will be ready to start the production and operation. Sweden may perhaps become a major exporter of gas by the turn of the century ...

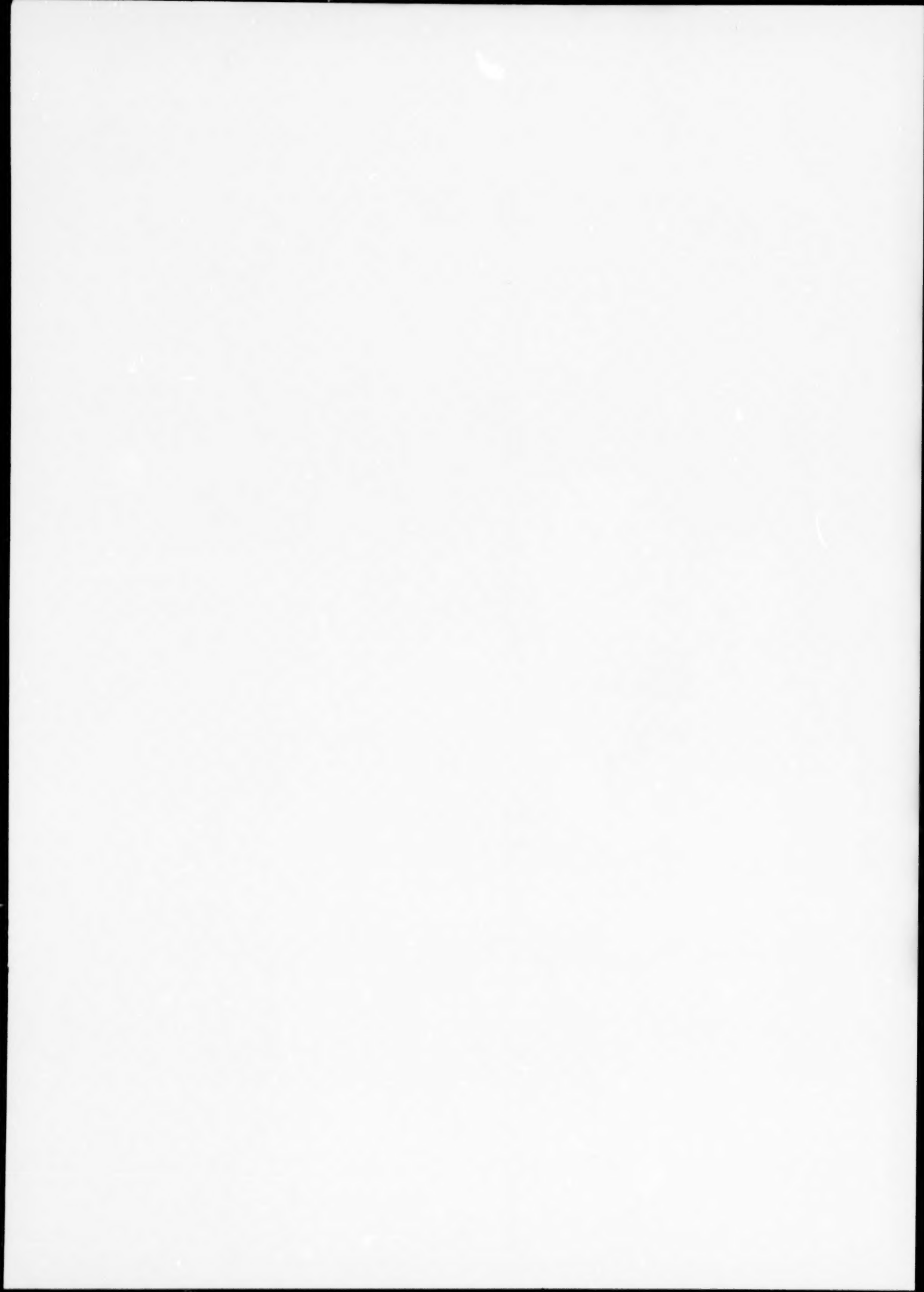
While the supporters are anxiously awaiting the final proof that the earth holds an enormous energy source which, among other things, will render nuclear power plants superfluous, skeptics smile wryly, referring to the project as the most costly Swedish joke of our time. Optimists will then reply, referring to the fact that the theory that the earth is round was once met with scornful laughter.





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